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2005 Annual Report

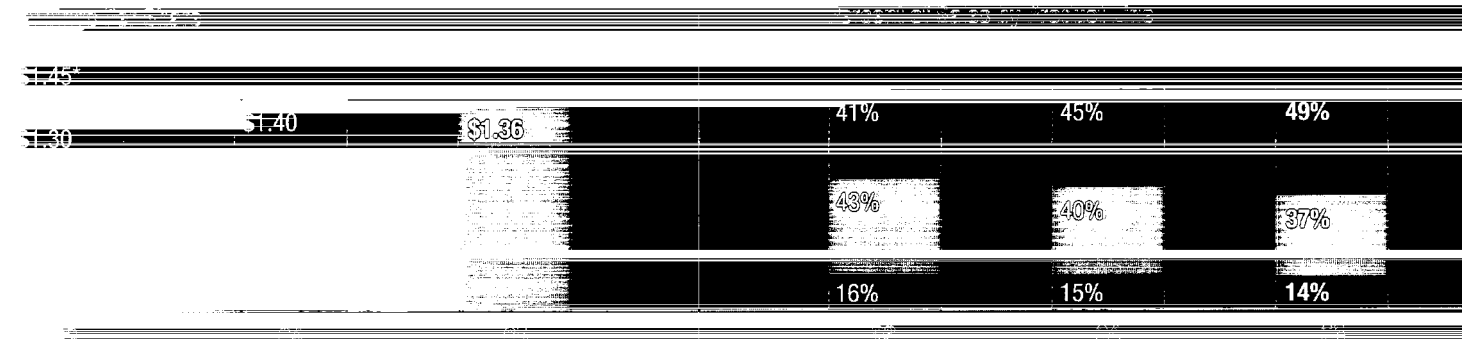
Arctic Cat Inc., based in Thief River Falls, Minnesota, designs, engineers, manufactures and markets snowmobiles and all-terrain vehicles (ATVs) under the Arctic Cat® brand name, as well as related parts, garments and accessories. Arctic Cat markets its products through a network of independent dealers located throughout the contiguous United States and Canada, and through distributors representing dealers in Alaska, Europe, the Middle East, Asia and other international markets. The company trades on the Nasdaq National Market under the symbol ACAI. For more information, please visit Arctic Cat's Web site at www.arcticcat.com.

(Amounts are in millions of dollars)

Arctic Cat Inc. Years ended March 31,	2005	2004	2003
Income Statement Data:			
Total Sales	\$689,145	\$649,617	\$577,070
Operating Profit	\$ 40,035	\$ 43,661	\$ 47,047
Total Earnings	\$ 28,299	\$ 30,365	\$ 32,703
Earnings Per Diluted Share	\$ 1.36	\$ 1.40	\$ 1.45
Average Diluted Shares Outstanding	20,794	21,730	22,615
Total Assets	\$291,733	\$280,586	\$273,852
Long-term Debt	\$ 0	\$ 0	\$ 0
Shareholders' Equity	\$185,510	\$185,953	\$187,286
Shareholders' Equity Per Share	\$ 9.23	\$ 8.85	\$ 8.49
Year-End Market Price Per Share	\$ 27.06	\$ 25.38	\$ 15.61

(Amounts are in millions)

(in millions)



Non-recurring items

*Includes non-recurring items

All-Terrain

Snowmobile

Parts, Garments & Accessories



Christopher A. Twomey
Chairman and Chief Executive Officer

TO OUR SHAREHOLDERS

I am pleased that we posted our fifth consecutive year of record sales in fiscal 2005, growing 6 percent to \$689.1 million. Although we had our best ever fourth-quarter performance, these results were not enough to offset rapidly escalating raw material costs and poor snow conditions across much of the United States that affected parts, garments and accessories sales. As a result, net earnings for the year were constrained to \$28.3 million, or \$1.36 per diluted share, compared to net earnings of \$30.4 million, or \$1.40 per diluted share, last year. We ended fiscal 2005 with a strong balance sheet of \$88.4 million in cash and no long-term debt.

Capturing ATV Market Share

Arctic Cat's full-year ATV sales rose 16 percent to \$341.0 million in fiscal 2005. ATV sales accounted for 49 percent of fiscal 2005 total sales, up from 45 percent last year. We continued to exceed the ATV retail industry's growth rate, as we have every year since entering this market in 1996. Contributing to our growth were strong sales of sport utility ATVs with large displacement engines and our first full year of sales of the DVX sport performance units. Additionally, we made our popular Speedrack™ accessory attachment system a standard feature on nearly all models, easily enabling riders to change their ATV accessories to suit their activity and generating ATV accessory sales.

We made significant progress on our ATV growth strategy to extend our product lineup into every market segment and to offer best-in-class ATVs at competitive prices. Notably, with the 2005 and 2006 product offerings, we have totally redesigned our entire lineup and expanded into additional categories.

We are excited to enter a new category for utility vehicles with the 2006 Prowler UTV, designed for work and play. The Prowler offers side-by-side bucket seats with seat belts, and a functional, rear cargo bed. We showed our dealers a concept Prowler vehicle

during last year's dealer show, and received an enthusiastic response. We also will expand our DVX ATV line in the sport performance segment to include 50, 90 and 250 engine sizes.

We also are working with our European ATV distributor to increase fiscal 2006 sales in the fast-growing European market by as much as 30 percent to 50 percent over fiscal 2005. We are excited by the potential of this market. We expect strong sales gains over the coming years as ATV demand grows in Europe and as we build our international presence.

Leveraging ATV Production Efficiencies

In a strategic move designed to leverage our efficiency and enhance growth, we introduced the first ATV engine designed and assembled by Arctic Cat. Our new 650 H1 ATV engine gives us greater flexibility to quickly meet changing market needs. We also anticipate some cost savings through reduced exposure to currency fluctuations and export taxes. While we enjoy excellent relationships with our ATV engine suppliers, this move puts us in greater charge of our own destiny.

Arctic Cat's dealers and customers responded very positively to the newly introduced 650 H1 engine. As planned, we shipped a limited quantity of 1,000 ATVs with the 650 H1 engine during the 2005 fourth quarter. We expect to sell up to 10 times as many units with these engines in fiscal 2006, and double that number the following year. To accommodate this growth, we are now evaluating suitable sites where we can build a larger facility to produce the H1 engine.

As we ramp up H1 production, we will dramatically boost our efficiency and profitability per unit. In fact, by the fourth quarter of fiscal 2006, we project this engine will cost less than any other large displacement engine that we currently purchase.

The H1 engine is a win-win for Arctic Cat and our customers. It provides an excellent combination of power, durability and value to our ATV line. Going forward, we intend to build and continue to source engines that best meet our customers' requirements.

Launching Innovative Snowmobiles

We anticipated that snowmobile sales would decline following several consecutive years of poor snow conditions across much of the United States. Arctic Cat's snowmobile sales fared slightly better than expected, falling only 2 percent versus last year. With fiscal 2005 sales totaling \$252.5 million, snowmobiles remain a substantial and profitable business for Arctic Cat, and one in which we will continue to invest.

Our snowmobile strategy is to drive market share gains through innovative new product offerings, particularly in market segments where we believed we were underperforming.

As an example, for 2005 model year, we completely redesigned our M Series mountain sleds. Our efforts paid off when the M7 mountain snowmobile was named "Snowmobile of the Year." The breakthrough M7 offers the industry's best power-to-weight ratio for mountain snowmobiles, which translates into improved acceleration and handling in deep snow. Increased sales of the M7 added more than four points to Arctic Cat's market share in the mountain segment and illustrated how Arctic Cat's superior technology can increase sales, even when good snow conditions are lacking.

We also launched an early 2006 model hybrid snowmobile, the Crossfire™, which is a versatile machine designed for both mountain and groomed trail riding. This exciting new sled combines features of our category-leading, high performance Firecat and award-winning M Series snowmobiles to offer exceptional trail and deep-powder handling, suspension and ergonomics. The Crossfire represents Arctic Cat's entry into the growing crossover snowmobile segment. It is an example of our success turning innovation into sales.

Also among our technology firsts, we are offering the all-new Cat Comm™ for the 2006 snowmobile season. This is the first integrated two-way communications system the sport has ever seen. It allows riders to easily talk to each other using a specially designed Arctic Cat helmet. And just to let you know that we haven't run out of ideas, we also introduced heated seats. Our exclusive Cat Comm and heated seats are available on the T660 Touring and T660 Turbo sleds.

Challenging Outlook for Fiscal 2006

Although we expect further sales growth in the year ahead, led by ATV market share gains, we believe that continued high raw material costs, lower snowmobile sales and an unfavorable dollar to yen exchange rate will continue to impact the company's earnings in fiscal 2006. To address these factors, we are aggressively pursuing initiatives to reduce costs and enhance our efficiency.

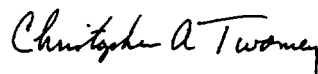
Chief among these initiatives is our effort to build more of our own ATV engines, which will improve profit margins and lessen our foreign currency exposure. And we have undertaken a variety of measures to generate transportation savings.

We also continued our focus on increasing shareholder value by repurchasing Arctic Cat's stock. Last spring, Arctic Cat's board of directors authorized a new \$20 million share repurchase plan. We bought one million shares of the company's stock during fiscal 2005 and had approximately 202,000 shares remaining under this authorization at year end.

In May 2005, Arctic Cat's board of directors authorized an additional \$20 million worth of stock to be bought back. We have repurchased more than 10 million shares in our various authorizations since 1996.

Although I expect the year ahead will be challenging, we remain passionate about producing best-in-class products that increase customer satisfaction, leading to growth and long-term shareholder value. I am confident that our current initiatives and new products will enhance our long-term prospects.

Sincerely,



Christopher A. Twomey
Chairman and Chief Executive Officer



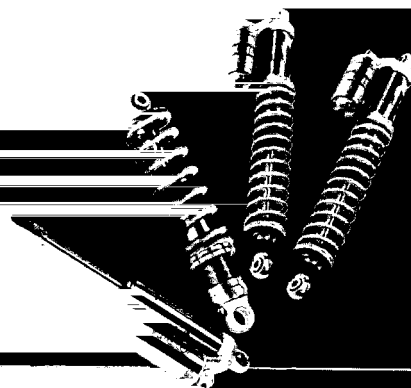
from left to right:

Our new **Cat Comm** two-way communication system enables riders to talk to each other using Arctic Cat's Crosstec VRE helmet, which is equipped with internal speakers and microphone.

Chrome hood and headlight covers are among the many accessories available to customize Arctic Cat snowmobiles.

One ride and you'll feel the difference.

Premium snowmobile shocks offer superior performance and durability.



ARCTIC CAT WINTER GEAR SETS NEW STANDARDS



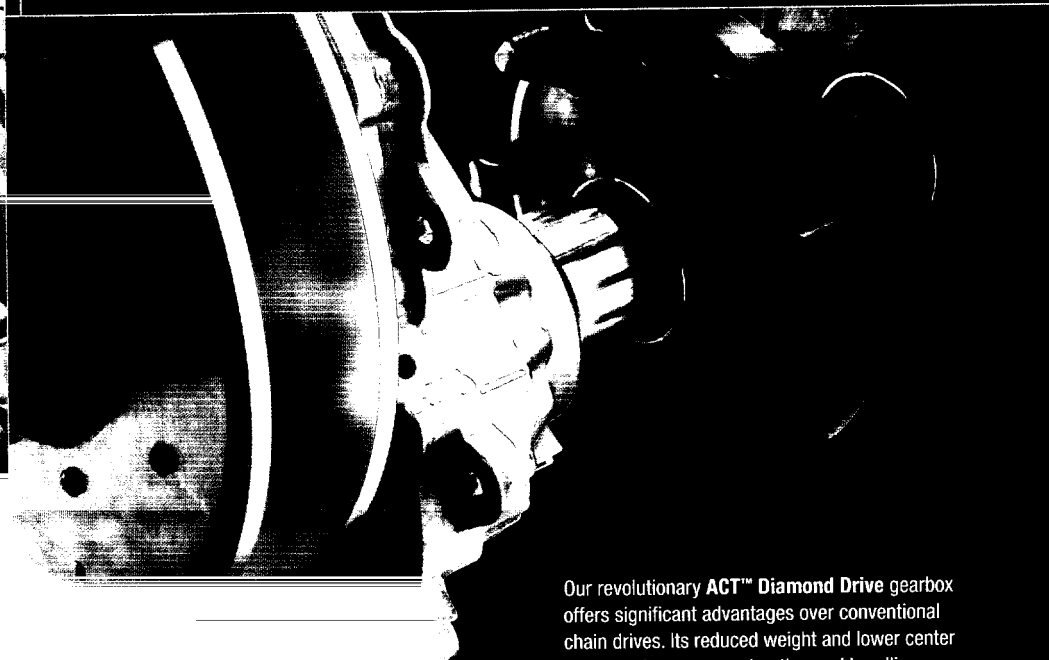
Snowmobiling has never been this much fun. Arctic Cat offers an expanding range of innovative parts, garments and accessories designed to ensure rider comfort. Our high-tech clothing and custom accessories also let snowmobilers express their individuality and turn standard sleds into personalized works of art.

Snowmobilers stay comfortable in Arctic Cat's new **A-Tex** line of waterproof, breathable jackets and pants.





left:
The **Bearcat® WideTrack** sport-utility sled is now offered with a 110-horsepower, turbo 4-stroke engine and the new **Speedrack™** accessory attachment system.




Our revolutionary **ACT™ Diamond Drive** gearbox offers significant advantages over conventional chain drives. Its reduced weight and lower center of gravity improve acceleration and handling. ~~Without a drive chain to adjust, the ACT~~
~~is~~ **easy maintenance free.**

With 50 snowmobile models, Arctic Cat has one to meet every rider's passion. Among our extensive 2006 model line-up are the powerful, high-performing **Firecat™** and **Sabercat™** series, the **M Series** mountain machines, the quiet and fast **T660** turbo 4-stroke, and our new hybrid **Crossfire** for both trail and mountain terrains. Among the latest technology ~~innovations~~, Arctic Cat adds heated seats to touring models this year, for enhanced rider comfort.



from left to right:
CrossFire 7, T660 Turbo Touring LE, Sabercat 700 LX



from left to right:
Our Firecat line offers sporty,
powerful performance.

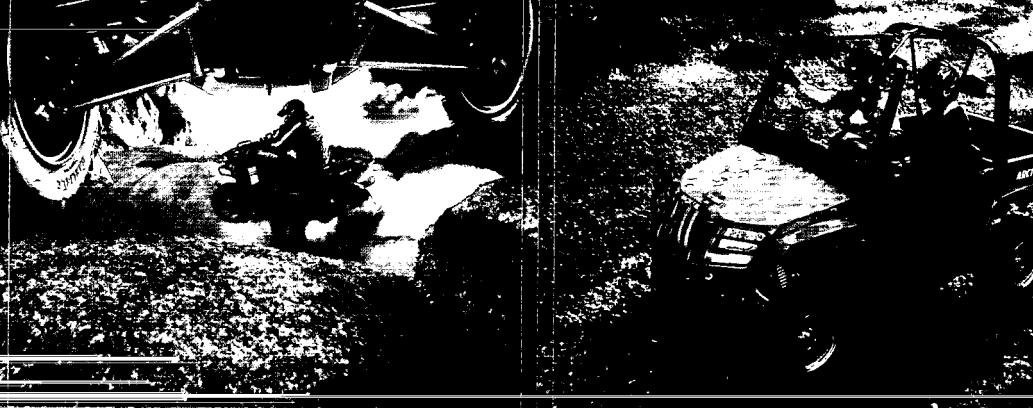
The Kingcat 900 easily
climbs mountains.



Arctic Cat's M Series mountain sleds are winning
acclaim—the M7 was named "Snowmobile of the Year."

Arctic Cat's fully-independent ATV suspension ranks best in class.

With the introduction of the 2006 model Prowler, we've entered the "true utility" market. Features include side-by-side bucket seats, composite fold-down rear cargo box, a latched cargo gate and towing capability.



THE LINE-UP

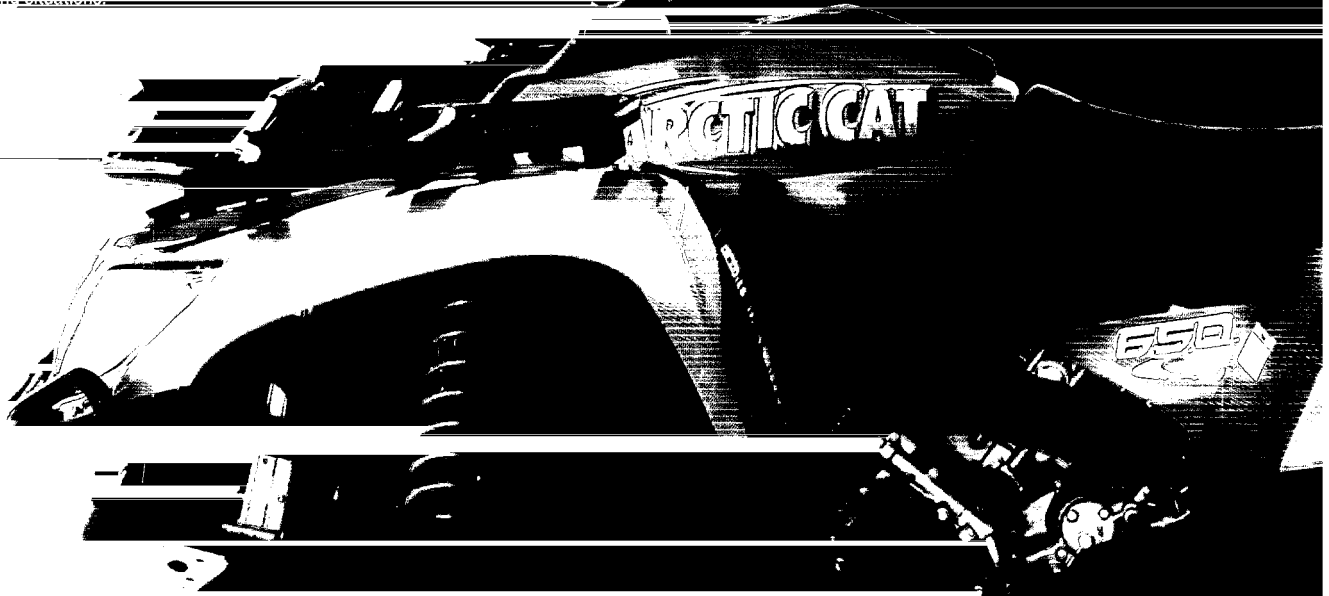
Two new 500 TBX, a tilt-box 500 TBX.

Two new 450 ATV and a 400 DVX for racing.



The **650 H1 engine** is the first ATV engine designed and built by Arctic Cat. It adds a dimension of exceptional power, durability and value to our line.

the 650. is ready for the
situations.

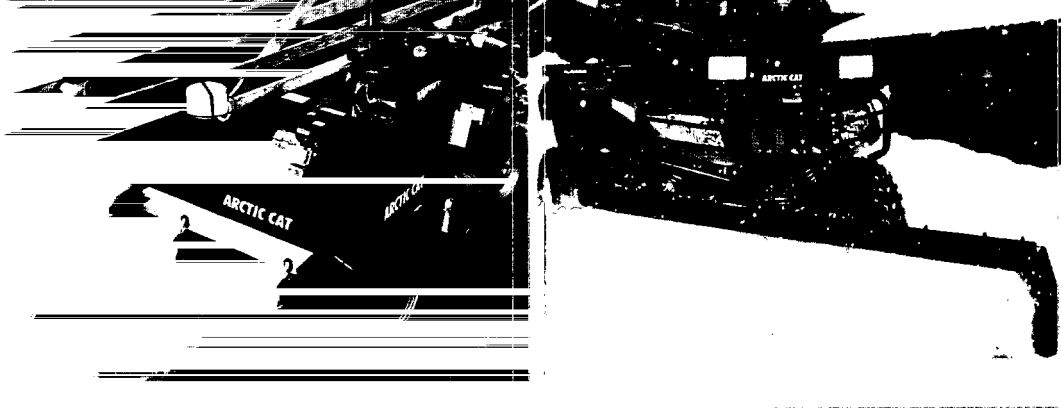


EXPANDING ATV MARKET SHARE THROUGH EXCITING NEW PRODUCTS

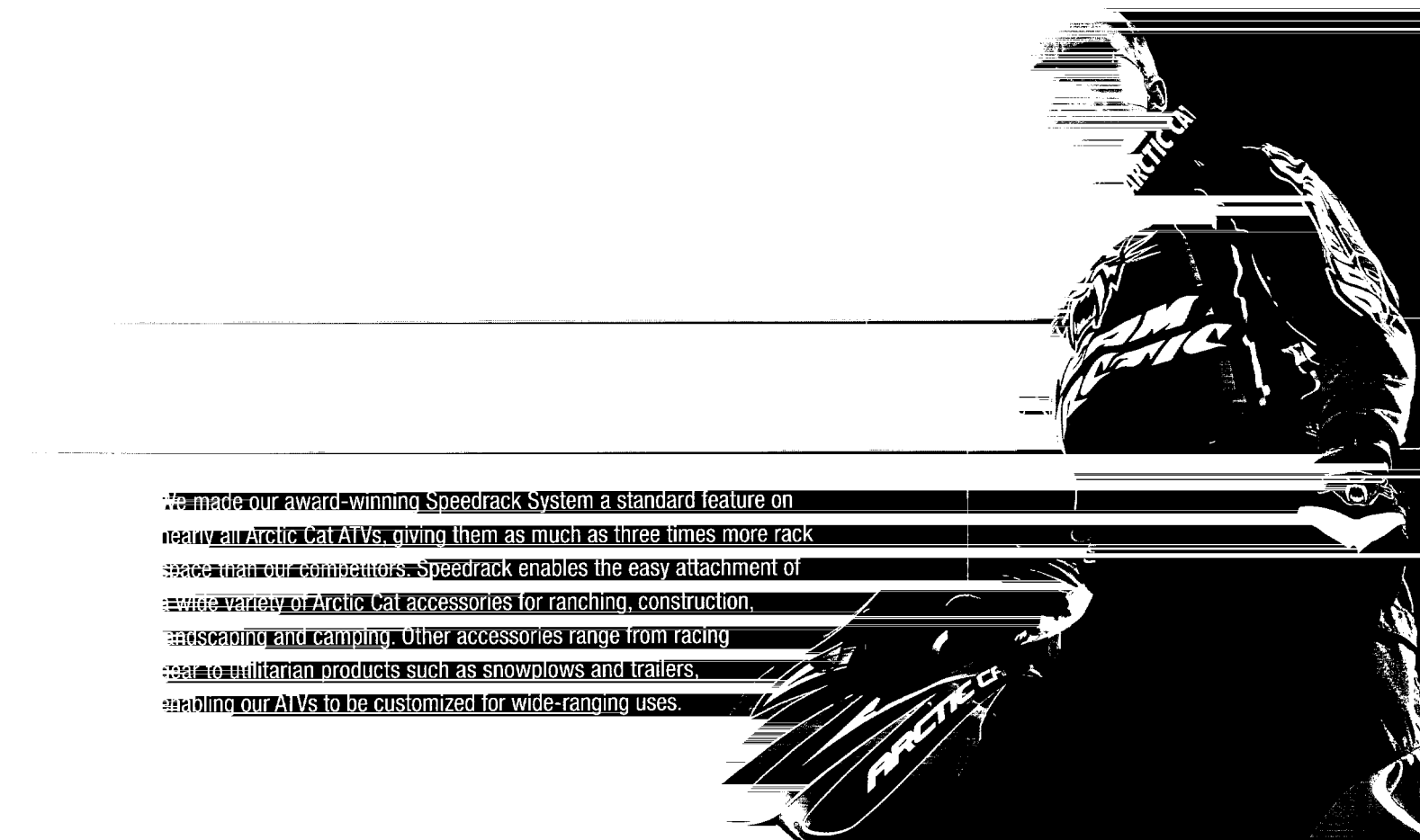
Every model in Arctic Cat's diverse ATV line is new within the last two years, including eight new 2006 models. The utility lineup includes the 650, 500, 400 and 250. Specialized ATVs aimed at larger needs include our performance-minded new Prowler UTV, the pickup-style TBX and the multi-purpose, two-rider TRV. All-new youth models are available in both utility and sport styles, and our racing DVX provides heart-pumping performance and customized styling choices.

"At first glance, you can tell it's an Arctic Cat. Our ATVs' new styling features ultra-wide fenders, an integrated suspension and "cat-eye" contoured headlights.

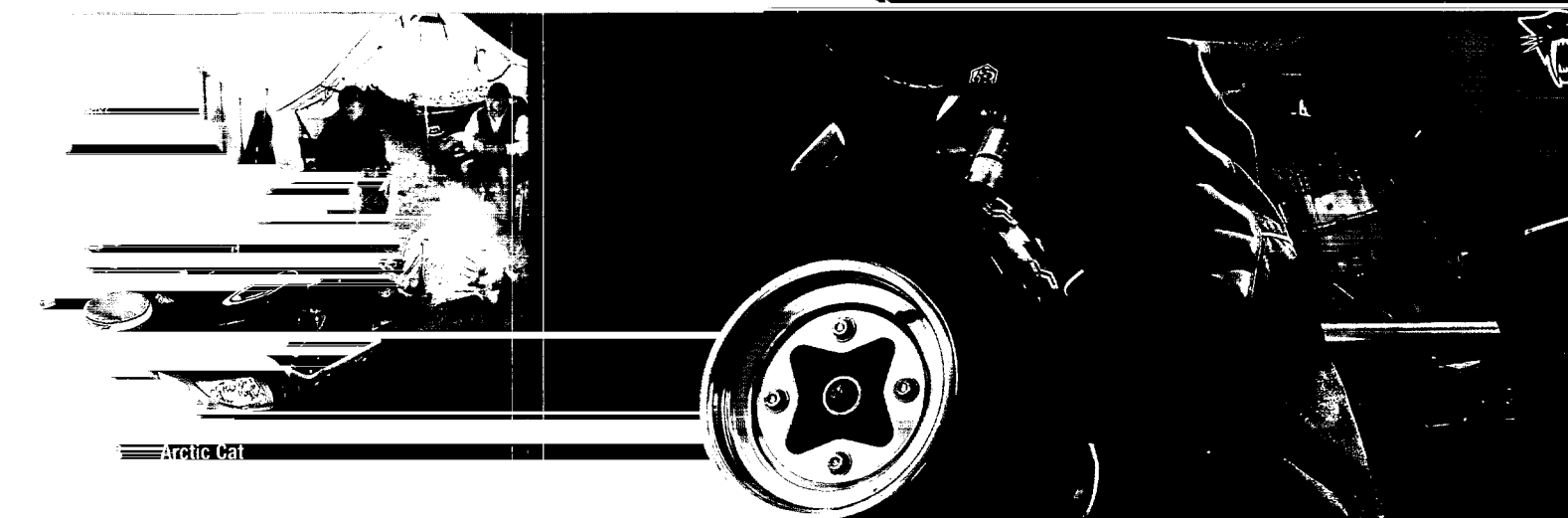


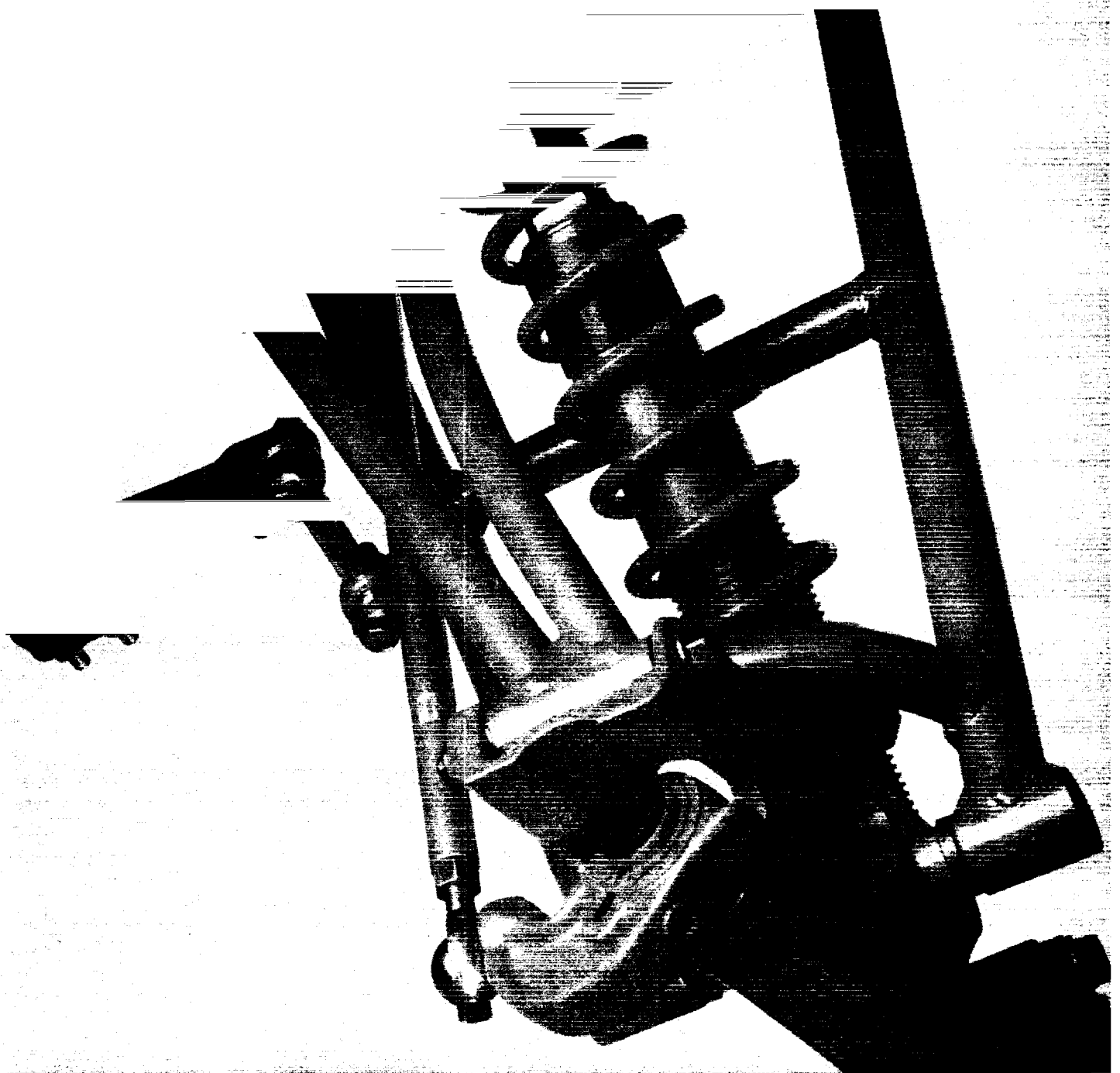


from left to right:
Arctic Cat's ATVs offer **more ways to get
work done** in every season.



We made our award-winning Speedrack System a standard feature on nearly all Arctic Cat ATVs, giving them as much as three times more rack space than our competitors. Speedrack enables the easy attachment of a wide variety of Arctic Cat accessories for ranching, construction, landscaping and camping. Other accessories range from racing gear to utilitarian products such as snowplows and trailers, enabling our ATVs to be customized for wide-ranging uses.





ANALYTICAL CHEMISTRY

For the fiscal year ended March 31, 2005

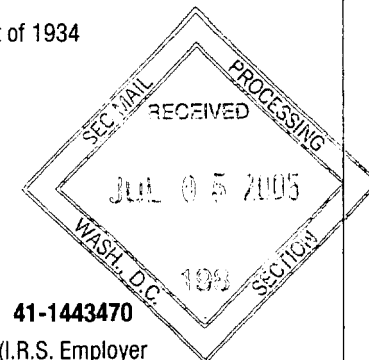
FORM 10-K

- ☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2005 or
- ☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-18607

ARCTIC CAT INC.

(Exact name of registrant as specified in its charter)

MINNESOTA(State or other jurisdiction
of incorporation or organization)**41-1443470**(I.R.S. Employer
Identification No.)**601 Brooks Avenue South****Thief River Falls, Minnesota 56701**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (218) 681-8558**Securities registered pursuant to Section 12(b) of the Act: None****Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 par value.****Preferred Stock Purchase Rights.**

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [☒]

Indicate by check mark whether Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes ☒ No ☐

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter: \$388,000,000.

At June 2, 2005, 13,211,439 shares of Common Stock and 6,717,000 shares of Class B Common Stock of the Registrant were outstanding.

Documents Incorporated by Reference:

Portions of the Company's Proxy Statement for its Annual Meeting of Shareholders currently scheduled to be held on August 3, 2005 are incorporated by reference into Part III of this Form 10-K.

ARCTIC CAT INC.

FORM 10-K TABLE OF CONTENTS

	Description	Page Numbers
PART I		
ITEM 1.	Business	3-7
ITEM 2.	Properties	7
ITEM 3.	Legal Proceedings	7
ITEM 4.	Submission of Matters to a Vote of Security Holders	8
ITEM 4A.	Executive Officers of Registrant	8
PART II		
ITEM 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	9
ITEM 6.	Selected Financial Data	10
	Quarterly Financial Data	11
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11-14
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	14-15
ITEM 8.	Financial Statements and Supplementary Data	15
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	15
ITEM 9A.	Controls and Procedures	15
ITEM 9B.	Other Information	16
PART III		
ITEM 10.	Directors and Executive Officers of the Registrant	17
ITEM 11.	Executive Compensation	17
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	17
ITEM 13.	Certain Relationships and Related Transactions	17
ITEM 14.	Principal Accounting Fees and Services	17
PART IV		
ITEM 15.	Exhibits, Financial Statement Schedules	18-19
	Signatures	20
	Consolidated Balance Sheets	21
	Consolidated Statements of Earnings	22
	Consolidated Statements of Shareholders' Equity	23
	Consolidated Statements of Cash Flows	24
	Notes to Consolidated Financial Statements	25-31
	Report of Independent Registered Certified Public Accounting Firm	32
	Exhibit Index	33
	Exhibit 21	33
	Exhibit 23	33
	Exhibit 31.1	34
	Exhibit 31.2	35
	Exhibit 32.1	36
	Exhibit 32.2	36

ITEM 1. BUSINESS

Arctic Cat Inc., a Minnesota corporation (the "Company"), is based in Thief River Falls, Minnesota. The Company operates in a single industry segment and designs, engineers, manufactures and markets snowmobiles and all-terrain vehicles (ATVs) under the Arctic Cat® brand name, as well as related parts, garments and accessories. The Company markets its products through a network of independent dealers located throughout the United States and Canada, and through distributors representing dealers in Europe, the Middle East, Asia and other international markets. The Arctic Cat brand name has existed for over 40 years and is among the most widely recognized and respected names in the snowmobile industry. The Company trades on the NASDAQ National Market under the symbol ACAT.

Industry Background

Snowmobiles – The snowmobile, developed in the 1950's, was originally intended to be used as a utility vehicle, but today the overwhelming majority of the industry's sales are for recreational use. Between the late 1950's and early 1970's, the industry expanded dramatically reaching a peak of over 100 manufacturers and a high of almost 495,000 units sold to retail customers in North America in 1971. Today the number of major industry participants has decreased to four, Arctic Cat, Bombardier Recreational Products (BRP), Polaris and Yamaha. The Company believes there are currently more significant barriers to entry into the snowmobile market than existed in the 1970's. These barriers include increased brand loyalty, long-standing dealer and distributor networks and relationships, limited engine sources, manufacturing and engineering expertise and higher initial start-up costs. Industry-wide snowmobile sales to retail customers in North America were approximately 147,000 units for the 2005 model year.

All-Terrain Vehicles (ATVs) – The ATV industry evolved from the three-wheel model that was developed in the early 1970s to the four-wheel models that are sold today. The most popular ATV use is general recreation, followed by hunting/fishing, farm/ranch use, hauling/towing, transportation, and commercial uses. From 1970 to 1986, the number of ATVs retailed in the United States continued to grow until peaking in 1986 with approximately 535,000 units sold during that calendar year. From 1987 to 1991, the number of ATVs sold declined to a low of approximately 151,000 units. Since 1992, sales have increased each year reaching approximately 814,000 units in calendar 2004. Major competitors in the industry include Honda, Yamaha, Kawasaki, BRP, Polaris and Suzuki and in early 2004 John Deere entered the market.

Products

Snowmobiles – The Company produces a full line of snowmobiles, consisting of 50 models, marketed under the Arctic Cat brand name, and designed to satisfy various market niches. The 2005 Arctic Cat models carry suggested U.S. retail prices ranging from \$3,999 to \$10,799, excluding a youth model which is sold at a suggested U.S. retail price of \$2,099. Arctic Cat snowmobiles are sold in the United States, Canada, Scandinavia and other international markets.

The Company's 2005 year snowmobile models are categorized as Performance, Trail Performance, Mountain, Touring and Utility. The Company markets: Performance Arctic Cat snowmobiles under the names Firecat and ZR; Trail Performance Arctic Cat snowmobiles under the name Z, Sabercat and T660 Turbo; Mountain snowmobiles under the names M series and King Cat; Touring models under the names Panther, Pantera, and T660 Touring; and Utility models under the name Bearcat. In addition, to encourage family involvement in snowmobiling, the Company offers a youth snowmobile marketed under the ZR120 name.

The Company believes the Arctic Cat brand name enjoys a premier image among snowmobile enthusiasts and that its snowmobiles have a long-standing reputation for quality, performance, fuel management, style, comfort, ride and handling. Arctic Cat snowmobiles offer a wide range of standard and optional features which enhance their operation, riding comfort and performance. Such features include hydraulic disc brakes, remote starters and a technologically advanced front and rear suspension. Arctic Cat is the industry leader in fuel management technology offering an electronic fuel injection (EFI) system on many of its snowmobiles. The Company recently introduced a snowmobile with a turbo four stroke inter-cooled engine. In 1999, the Company developed a new corporate brand "ACT"™ (Arctic Cat Technology) in order to recognize and leverage its industry-leading technology and engineering.

Arctic Cat focuses on new product development in order to grow its market share and introduce at least one new model every year. These new models are consistently the Company's best sellers in their respective category. In the 2005 model year, over 76 percent of the Company's snowmobile sales were from models or model variations not available three years earlier. A recent example of the success of Arctic Cat's new product was the 2005 M7 Mountain Cat being named "Snowmobile of the Year" by *SnowGoer Magazine*.

For the last three fiscal years ended 2005, 2004, and 2003 snowmobiles accounted for 37%, 40% and 43% of the Company's revenues.

All-Terrain Vehicles (ATVs) – In December 1995, the Company introduced its first ATV. Since that time the Arctic Cat line has grown to 20 models. Features like fully independent front and rear suspensions, hydraulic disc brakes, hi-low range, high ground clearance, MRP Speedracks, automatic transmissions, shaft 2WD/4WD drive, locking differentials and a large fuel tank, all make Arctic Cat ATVs consumer

friendly. The 2005 Arctic Cat ATV models carry suggested U.S. retail prices ranging from \$3,299 to \$8,249, excluding youth models which are sold at suggested U.S. retail prices ranging from \$1,799 to \$2,299.

Arctic Cat has continued to expand into international markets by focus on new product development, adding new distributors, entering new territories, and developing new markets. The Company produces ATVs for AGCO Corporation under the Arctic Cat and Massey Ferguson/Delta Allis brands for distribution through their dealer network outside of North America.

Arctic Cat believes its ATVs are recognized for their power and durability and are well received within the market. For model year 1998, the Arctic Cat 300 was named "Editors Choice" by *Sports Afield* and "Best In Class" by *ATV Magazine*. For model year 1999, *ATV Magazine* named the 300 4x4 as "Best in Class" and the 500 4x4 as the Editors Pick for "Best-for-Work" machine. *Farm Industry News* gave Arctic Cat 2000 models the FinOvation Award for having the greatest reader interest. *ATV Magazine* awarded the Arctic Cat 250 4x4 model "Best in Class" in 2001 and "Best Utility" in 2002. In 2003 Arctic Cat MRP Speedrack models received the 2003 Product Innovation Award from *ATV Magazine*. In 2004 the Arctic Cat 650 V-twin received "ATV of the Year" award from both "*ATV Illustrated*" and "*ATV Guide*".

For the last three fiscal years ended 2005, 2004, and 2003 ATVs accounted for 49%, 45% and 41% of the Company's revenues.

Parts, Garments and Accessories – The Company is the exclusive provider of genuine Arctic Cat snowmobile and ATV parts, garments and accessories. Included are replacement parts and accessory items to upgrade Arctic Cat snowmobiles such as electric start and reverse kits, luggage racks and bags, backrests, machine covers, windshields, and colored accessories. Other items include maintenance supplies such as oil and fuel additives, track studs and carbide runners. Arctic Cat ATV parts and accessories include winch kits, snow plow kits, MRP Speedrack accessories, portable lights, utility bags as well as maintenance supplies.

The Company offers snowmobile garments for adults and children under the "Arcticwear" label. Suits, jackets, pants and accessory garments are offered in a wide variety of styles and sizes combining fashion with functional utility designed for the demands of snowmobiling and other winter activities. The Arcticwear line of clothing also includes pull-overs, riding gloves, hats, helmets, boots, gear bags, sweatshirts, T-shirts, and caps. The colors and designs of many of these items are coordinated with specific Arctic Cat snowmobile models.

The Company offers ATV garments under the "Arcticwear ATV Gear" label. This line of clothing is geared toward function and comfort and includes suits, jackets, gloves, helmets, gear bags, sweatshirts, T-shirts, and caps.

For the last three fiscal years ended 2005, 2004, and 2003 parts, garments and accessories accounted for 14%, 15% and 16% of the Company's revenues.

Manufacturing and Engineering

Arctic Cat snowmobiles and ATVs are manufactured at the Company's facilities in Thief River Falls, Minnesota. The Company paints snowmobile hoods and produces other parts for Arctic Cat snowmobiles and ATVs in its Madison, South Dakota plant. The Company also has a facility in Bucyrus, Ohio which houses its service parts, garments and accessories distribution operations. The Company has strategically identified specific core manufacturing competencies for vertical integration and has chosen outside vendors to provide other parts. The Company has developed relationships with selected high quality vendors in order to obtain access to particular capabilities and technologies outside the scope of the Company's expertise. The Company designs component parts often in cooperation with its vendors, contracts with them for the development of tooling, and then enters into agreements with these vendors to purchase component parts manufactured utilizing the tooling. In its vertically integrated operations, the Company manufactures foam seats, seat covers and machines, welds and paints other components. The Company completes the total assembly of its products at its facilities in Thief River Falls. Manufacturing operations include digital and computer-automated equipment to speed production, reduce costs and improve the quality, fit and finish of every product. The Company believes that most raw materials used in its manufacturing process and most component parts, with the exception of engines are available from multiple alternative vendors on relatively short notice at competitive prices.

Suzuki Motor Corporation ("Suzuki") has manufactured snowmobile and ATV engines for the Company pursuant to supply agreements which are automatically renewed annually unless terminated. While notice of termination of the supply agreements may be given annually, effective termination of supply would take at least one model year for snowmobile and two model years for ATVs due to contractual notice requirements.

The Company is in the third year of a three year agreement with Kawasaki to supply Arctic Cat certain ATV engines. In fiscal 2005 this amounted to approximately 15% of the Company's ATV engine requirements.

The Company and Suzuki have enjoyed an excellent relationship since the Company's inception. Suzuki purchased approximately 31% of the Company's then outstanding capital stock in July 1988, prior to the Company's initial public offering in July of 1990, and is currently the Company's largest shareholder with approximately 33% of the Company's outstanding capital stock. If Suzuki or Kawasaki were ever to cease supplying engines to the Company, such an interruption could materially and adversely affect production. The Company believes it could take up to two model years for a new engine supplier to be in a position to manufacture the Company's specially designed engines.

During late fiscal 2005 the Company began manufacturing its own designed 650 cc ATV engine as part of a strategic first step in a new engine program. The Company believes that having the capability to design and manufacture its own ATV engines will enable Arctic Cat to offer customers more choices, provide excellent value, lower Japanese Yen currency exposure and enhance its long-term competitive position. In fiscal year 2005 the Company built approximately 1,000 of its own 650 cc engines.

Since the Company began snowmobile production, it has followed a build-to-order policy to control inventory levels. Under this policy, the Company only manufactures a number of snowmobiles equivalent to the orders received from its dealers and distributors, plus a number of uncommitted machines used for dealer and market development, in-house testing and miscellaneous promotional purposes. Since the consolidation of the snowmobile industry in the mid-1970's through the early 1980's, speculative production in the industry has been reduced and the Company believes dealer inventories have remained consistently below historic peak levels.

Most sales of snowmobiles to retail customers begin in the early fall and continue during the winter. Orders by dealers and distributors for each year's production are placed in the spring following dealer and distributor meetings. Snowmobiles are built commencing in the spring and continuing through late autumn or early winter.

Retail sales of ATVs occur throughout the year with seasonal highs occurring in the spring and fall. The Company builds ATVs throughout the year to coincide with dealer and consumer demand.

The Company is committed to an ongoing engineering program dedicated to innovation and to continued improvements in the quality and performance of its products as well as new product introduction. The Company currently employs 164 individuals in the design and development of new and existing products, with an additional 31 individuals directly involved in the testing of snowmobiles and ATVs in normal and extraordinary conditions. In addition, snowmobiles and ATVs are tested in conditions and locations similar to those in which they are used. The Company uses computer-aided design and manufacturing systems to shorten the time between initial concept and

final production. For 2005, 2004, and 2003, the Company spent approximately \$17,350,000, \$14,736,000, and \$14,254,000 on engineering, research and development. In addition, utilizing their particular expertise, the Company's vendors regularly test and apply new technologies to the design and production of component parts.

Sales and Marketing

The Company's products are currently sold through an extensive network of independent dealers located throughout the United States and Canada, and through distributors representing dealers in Europe, the Middle East, Asia and other international markets. To promote new dealerships and to service its existing dealer network, the Company also employs sales representatives throughout the United States and Canada. See item 7A, Consolidated Statements of Earnings and Notes A & L of Notes to Consolidated Financial Statements for a discussion of export sales.

The Company's dealers enter into an annual renewable contract and are required to maintain status as an authorized dealer in order to continue selling the Company's products. To obtain and maintain such status, dealers are expected to order a sufficient number of snowmobiles and/or ATVs to service their market area adequately. In addition, the dealers must perform service on these units and maintain satisfactory service performance levels, and their mechanics must complete special training provided by the Company. Dealers are also expected to carry adequate levels of inventory of genuine Arctic Cat parts and accessories. As is typical in the industry, most of the Company's dealers also sell some combination of motorcycles, marine products, lawn and garden products and other related products.

The Company utilizes distributors outside the United States and Canada to take advantage of their knowledge and experience in their respective markets and to increase market penetration of its products. Canadian sales are made in Canadian dollars, nearly all of which is financed through certain Canadian financial institutions. Sales outside North America are normally made in U.S. dollars and most are supported by letters of credit.

The Company's sales and marketing efforts are comprised of dealer, and consumer promotions, direct advertising and cooperative advertising programs with its dealers and distributors. Each year, the Company and its distributors conduct dealer shows in order to introduce the upcoming year's models and to promote dealer orders. Marketing activities are designed to promote directly to consumers. Products are advertised by the Company in consumer magazines and through other media. In addition, the Company engages in extensive dealer cooperative advertising, on a local and national level, whereby the Company and its dealers share advertising costs. Each season the Company produces promotional films, product brochures, point of purchase displays, leaflets, posters and banners, and other promotional

items for use by dealers. The Company also participates in consumer shows and rallies with dealers and sponsors independent racers who participate in snowmobile races throughout the world. In order for its dealers and distributors to remain price competitive and to reduce retail inventories, the Company will from time to time make available to them rebate programs, discounts, or other incentives. In order to build brand loyalty the Company publishes and mails, during the year, magazines called *Pride* (snowmobile) and *Ride* (ATV) to registered owners of its products.

The Company places strong emphasis on identifying and addressing the specific needs of its customers by periodically conducting dealer and consumer focus group meetings and surveys.

The Company warrants its snowmobiles and ATVs under a limited warranty against defects in materials and workmanship for a period generally ranging from six months to one year from the date of retail sale or for a period of 90 days from the date of commercial or rental use. Repairs or replacements under warranty are administered through the Company's dealers and distributors.

Competition

The snowmobile and ATV markets are highly competitive, based on a number of factors, including performance, innovation, technology, styling, fit and finish, brand loyalty, reliability, durability, price and distribution. The Company believes Arctic Cat snowmobiles and ATVs are highly regarded by consumers in all of these competitive categories. Certain of the Company's competitors are more diversified and have financial and marketing resources which are substantially greater than those of the Company.

Regulation

Both federal and state authorities have vigorous environmental control requirements relating to air, water and noise pollution that affect the manufacturing operations of the Company. The Company endeavors to insure that its facilities comply with applicable environmental regulations and standards.

Certain materials used in snowmobile and ATV manufacturing that are toxic, flammable, corrosive or reactive are classified by the federal and state governments as "hazardous materials." Control of these substances is regulated by the Environmental Protection Agency (EPA) and various state pollution control agencies, which require reports and inspection of facilities to monitor compliance. The Company's cost of compliance with environmental regulations has not been, and is not expected to be, material. The Company's manufacturing facilities are subject to the regulations promulgated by, and may be inspected by, the Occupational Safety and Health Administration.

Various states and other governmental agencies have also promulgated safety regulations regarding the use of snowmobiles and ATVs. The Company has supported laws and regulations pertaining to safety and exhaust emissions. The Company believes that the adoption of any pending laws or regulations would not negatively affect its products to any greater degree than those of its competitors.

The EPA recently adopted regulations affecting snowmobiles and ATVs for model years 2006 and beyond. The Company believes that it will be in compliance with these regulations. The Company supports balanced and appropriate programs that educate the customer on the safe use of its products and protect the environment.

The Company is a member of the International Snowmobile Manufacturers Association (ISMA), a trade association formed to promote safety in the manufacture and use of snowmobiles, among other things. The ISMA is currently made up of Arctic Cat, BRP, Yamaha, and Polaris. The ISMA members are also members of the Snowmobile Safety and Certification Committee (SSCC), which promulgated voluntary safety standards for snowmobiles. The SSCC standards, which require testing and evaluation by an independent testing laboratory of each model category produced by participating snowmobile manufacturers, have been adopted by the Canadian Ministry of Transport. Following the development of the SSCC standards, the U.S. Consumer Products Safety Commission denied a petition to develop a mandatory federal safety standard for snowmobiles in light of the high degree of adherence to the SSCC standards in the United States. Since the Company's inception, all of its models have complied with the SSCC standards.

The Company is a member of the Specialty Vehicle Institute of America (SVIA), a trade association organized to foster and promote the safe and responsible use of ATVs manufactured and/or distributed throughout the United States. The Company is also a member of the Canadian All-Terrain Vehicle Distributors Council (CATV), as well as the All-Terrain Vehicle Association of Europe (ATVEA).

Effects of Weather

While from time to time lack of snowfall in a particular region of the United States or Canada may adversely affect snowmobile retail sales within that region, the Company works to mitigate this effect by taking snowmobile orders in the spring for the following winter season and some years works with its dealers to facilitate the movement of snowmobiles out of a region with light snowfall to another region with heavier snowfall. Nonetheless, there is no assurance that weather conditions will not materially affect the Company's future sales of snowmobiles.

Employees

At March 31, 2005, the Company had 1,631 employees including 300 salaried and 1,331 hourly and production personnel. The Company's employees are not represented by a union or subject to a collective bargaining agreement. The Company has never experienced a strike or work stoppage and considers its relations with its employees to be excellent.

Intellectual Property

The Company makes an effort to patent all significant innovations that it considers patentable and owns numerous patents for its snowmobiles, ATVs and other products. Trademarks are important to the Company's snowmobile, ATVs and related parts, garments and accessories business activities. While from time to time the Company becomes aware of the unauthorized use of its trademarks, particularly in the sale of promotional items, the Company has a program of trademark enforcement to eliminate the unauthorized use of its trademarks, thereby strengthening the value of its trademarks and improving its image and customer goodwill. The Company believes that its "Arctic Cat" registered trademark is its most significant trademark. Additionally, the Company has numerous registered trademarks, trade names and logos, both in the United States and internationally.

Available Information

The Company is subject to the reporting requirements of the Securities Exchange Act of 1934 and its rules and regulations (the "1934 Act"). The 1934 Act requires the Company to file reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Copies of these reports, proxy statements and other information can be read and copied at: SEC Public Reference Room, 450 Fifth Street, N.W., Washington D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements, and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's home page at <http://www.sec.gov>.

The Company has a website at www.arcticcat.com, the contents of which are not part of or incorporated by reference into this annual report. The Company makes its annual reports, quarterly reports and current reports available on its website, free of charge, as soon as reasonably practicable after such report has been filed with the SEC. The Company's Code of Conduct, as well as any waivers from and amendments to the Code, are also posted on the Company's website.

ITEM 2. PROPERTIES

The following sets forth the Company's material property holdings as of March 31, 2005.

Location	Facility Type / Use	Owned or Leased	Sq Ft.
Thief River Falls, Minnesota	Manufacturing/Corporate Office	Owned	558,000
Thief River Falls, Minnesota	Warehouse	Leased	92,135
Thief River Falls, Minnesota	Warehouse	Leased	14,350
Madison, South Dakota	Manufacturing	Owned	40,000
Bucyrus, Ohio	Distribution Center	Owned	220,000
Winnipeg, Manitoba	Service Center	Leased	10,602
Island Park, Idaho	Test & Development Facility	Owned	3,000

ITEM 3. LEGAL PROCEEDINGS

Accidents involving personal injury and property damage occur in the use of snowmobiles and ATVs. Claims have been made against the Company from time to time. It is the Company's policy to vigorously defend against these actions. The Company believes that the cases in discovery are adequately covered by reserves and product liability insurance. The Company is not involved in any legal proceedings which it believes will have the potential for a materially adverse impact on the Company's business or financial condition.

Product liability insurance is presently maintained by the Company on a "per occurrence" basis (with coverage being provided in respect of accidents which occurred during the policy year, regardless of when the related claim is made) in the amount of \$10,000,000 in the aggregate, with a \$5,000,000 self-insured retention. The Company believes such insurance is adequate.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the shareholders during the fourth quarter of fiscal 2005.

ITEM 4A. EXECUTIVE OFFICERS OF REGISTRANT

Name	Age	Position
Christopher A. Twomey	57	Chairman of the Board of Directors, President and Chief Executive Officer
Timothy C. Delmore	51	Chief Financial Officer and Corporate Secretary
Terry J. Blount	62	Vice President – Human Resources
Robert Bonev	47	Vice President – Sales and Marketing
Ronald G. Ray	56	Vice President – Operations
Roger H. Skime	62	Vice President – Research & Development
Ole E. Tweet	58	Vice President – New Product Development

Mr. Twomey has been Chairman since 2003, President and Chief Executive Officer of the Company since January 1986 and director since 1987. Mr. Twomey is currently serving as a director of The Toro Company and Universal Trailer Corporation.

Mr. Delmore has been Chief Financial Officer of the Company since 1986 and has been Corporate Secretary of the Company since 1989. Mr. Delmore, a CPA with seven years of prior public accounting experience, joined the Company in 1985 as Controller.

Mr. Blount has been Vice President – Human Resources since August of 1996. Mr. Blount has over 30 years of Human Resource experience in the manufacturing field. Prior to joining the Company, Mr. Blount worked as Vice President-Human Resources at Washington Scientific Industries since 1981.

Mr. Bonev has been Vice President – Sales and Marketing since June of 2001 and has over 20 years of sales and marketing experience. From February 1999 to January 2000, Mr. Bonev served as Vice President of Marketing for Outdoor Marine Corporation. From December 1998 to February 1999, Mr. Bonev was employed by Teledyne Continental Motors, a business segment of Teledyne Technologies Incorporated, as Vice President of Sales/Marketing. From June 1993 to December 1998, Mr. Bonev was Director of Marketing for Mercury Marine, a division of The Brunswick Corporation.

Mr. Ray has been Vice President – Operations since April of 2004; prior to that he served as the Company's Vice President – Manufacturing since 1992 and has over 30 years of manufacturing experience. Before joining Arctic Cat he served eight years as Vice President of Manufacturing for a Minnesota-based company.

Mr. Skime has been Vice President – Research and Development of the Company since its inception in 1983 and has been employed in the snowmobile industry for over 40 years.

Mr. Tweet has been Vice President – New Product Development since May 1992. Prior to that, he had been the Company's Vice President – Marketing since its inception in 1983 and has been employed either in the snowmobile or ATV industry for over 30 years.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER OF EQUITY SECURITIES

The Company's common stock is traded on the NASDAQ National Market under the NASDAQ symbol "ACAT". Quotations below represent the high and low sale prices as reported by NASDAQ. The Company's stock began trading on the NASDAQ National Market on June 26, 1990.

Years ended March 31, Quarterly Prices	2005		2004	
	High	Low	High	Low
First Quarter	\$28.07	\$20.58	\$19.71	\$15.03
Second Quarter	\$27.96	\$24.88	\$22.25	\$18.25
Third Quarter	\$27.30	\$23.76	\$25.45	\$18.52
Fourth Quarter	\$29.20	\$23.82	\$28.55	\$22.68

As of June 2, 2005, the Company had approximately 435 stockholders of record, including the nominee of Depository Trust Company which held 12,244,362 shares of common stock.

Cash Dividends Paid

Cash Dividends are declared quarterly and have been paid since 1995. As of October 23, 2003, the quarterly dividend was increased to \$0.07 per share.

Quarter	2005	2004
First Quarter	\$0.07	\$0.06
Second Quarter	\$0.07	\$0.06
Third Quarter	\$0.07	\$0.07
Fourth Quarter	\$0.07	\$0.07
Total	\$0.28	\$0.26

Purchases of Company Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2005 – January 31, 2005	241,600	\$25.32	241,600	215,700
February 1, 2005 – February 28, 2005	0	\$ –	0	201,800
March 1, 2005 – March 31, 2005	0	\$ –	0	202,100

The Company purchases Company common stock primarily to offset the dilution created by employee stock option programs and because the Board of Directors believes investment in the Company's common stock is an excellent use of its excess cash.

The Company has a publicly announced stock repurchase programs which have been approved by the Board of Directors. On June 24, 2004 the Company announced the Board approved a \$20 million repurchase program and on May 12, 2005, the Company announced the Board approved a \$20 million repurchase program. Pricing under this program has been delegated to management. There is no expiration date for this program.

The Company has executed the Company stock purchases in accordance with Rule 10b-18 of the Securities Exchange Act of 1934. There have been no other purchases of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per share amounts)

Years ended March 31,	2005	2004	2003	2002	2001
INCOME STATEMENT DATA:					
Net sales	\$689,145	\$649,617	\$577,070	\$556,079	\$502,449
Cost of goods sold	553,365	510,445	448,266	433,297	398,019
Gross profit	135,780	139,172	128,804	122,782	104,430
Selling, general and administrative expenses	95,745	95,511	81,757	83,228	68,712
Operating profit	40,035	43,661	47,047	39,554	35,718
Interest income	1,213	993	1,442	2,543	4,563
Interest expense	—	—	—	—	—
Earnings before income taxes	41,248	44,654	48,489	42,097	40,281
Income taxes	12,949	14,289	15,786	13,471	13,293
Net earnings	\$ 28,299	\$ 30,365	\$ 32,703⁽¹⁾	\$ 28,626	\$ 26,988
Net earnings per share					
Basic	\$1.38	\$1.42	\$1.46⁽¹⁾	\$1.21	\$1.11
Diluted	\$1.36	\$1.40	\$1.45⁽¹⁾	\$1.20	\$1.10
Cash dividends per share	\$0.28	\$0.26	\$0.24	\$0.24	\$0.24
Weighted average shares outstanding					
Basic	20,516	21,424	22,396	23,587	24,231
Diluted	20,794	21,730	22,615	23,925	24,457
As of March 31,	2005	2004	2003	2002	2001
BALANCE SHEET DATA (In thousands):					
Cash and short-term investments	\$ 88,394	\$106,440	\$ 91,295	\$102,040	\$ 99,828
Working capital	123,069	128,036	132,525	129,873	123,028
Total assets	291,733	280,586	273,852	264,683	255,470
Long-term debt	0	0	0	0	0
Shareholders' equity	185,510	185,953	187,286	181,638	170,442

⁽¹⁾ In fiscal 2003, the Company's results included a net reduction of restructuring accruals and other costs related to the fiscal 2000 exit from the personal watercraft (PWC) business. This reduction increased: pretax earnings \$5.4 million, net earnings \$3.4 million and diluted earnings per share \$0.15.

QUARTERLY FINANCIAL DATA (unaudited)

(In thousands, except per share amounts)	Total Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales					
2005	\$689,145	\$102,594	\$240,673	\$188,855	\$157,023
2004	649,617	77,189	237,650	194,618	140,160
2003	577,070	78,283	211,242	176,175	111,370
Gross Profit					
2005	\$135,780	\$ 18,956	\$ 52,612	\$ 37,849	\$ 26,363
2004	139,172	18,526	56,172	43,981	20,493
2003	128,804	18,843	52,970	39,653	17,338
Net Earnings (Loss)					
2005	\$ 28,299	\$ 124	\$ 19,651	\$ 5,792	\$ 2,732
2004	30,365	102	21,569	9,733	(1,039)
2003	32,703 ⁽¹⁾	1,969	20,520	11,912 ⁽¹⁾	(1,698)
Net Earnings (Loss) Per Share					
2005 Basic	\$1.38	\$0.01	\$0.95	\$0.28	\$0.14
Diluted	1.36	0.01	0.94	0.28	0.13
2004 Basic	1.42	0.00	0.99	0.46	(0.05)
Diluted	1.40	0.00	0.98	0.46	(0.05)
2003 Basic	1.46 ⁽¹⁾	0.09	0.92	0.54 ⁽¹⁾	(0.08)
Diluted	1.45 ⁽¹⁾	0.08	0.91	0.53 ⁽¹⁾	(0.08)

⁽¹⁾ In fiscal 2003, the Company's results included a net reduction of restructuring accruals and other costs related to the fiscal 2000 exit from the personal watercraft (PWC) business. This reduction increased: pretax earnings \$5.4 million, net earnings \$3.4 million and diluted earnings per share \$0.15.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Level Overview

Fiscal 2005 was the fifth consecutive year of record sales for Arctic Cat. Fiscal 2005 net sales increased over 6% to \$689.1 million from \$649.6 million in fiscal 2004. Fiscal 2005 net earnings were \$28.3 million or \$1.36 per diluted share compared to net earnings of \$30.4 million or \$1.40 per diluted share in fiscal 2004. The decrease in net earnings was mainly due to increased engine costs resulting from the stronger yen versus dollar relationship. During the year the Company repurchased over 1 million shares of the common stock and ended the year with \$88.4 million in cash and short-term investments.

The Company's product lines consist of all-terrain vehicles (ATVs), snowmobiles and parts, garments and accessories.

ATV sales increased 16% in fiscal 2005 to \$341.0 million from \$294.4 million in fiscal 2004. ATV net sales surpassed snowmobile net sales in fiscal 2004 and are the Company's largest product line, comprising over 49% of net sales. The Company's ATV growth is due to Arctic Cat's expanded product line-up that now fills nearly every market segment as well as overall growth in the ATV market.

Snowmobile sales decreased 2% in fiscal 2005 to \$252.5 million from \$258.4 million in fiscal 2004 because of less than normal snow-fall during the prior winter season. Snowmobiles comprised 37% of the Company's net sales in fiscal 2005.

Parts, garments and accessory sales decreased 1% in fiscal 2005 to \$95.7 million from \$96.8 million in fiscal 2004. Sales of snowmobile related parts, garments and accessories decreased due to the mild winter weather across much of the United States. Parts, garments and accessory sales were 14% of the Company's net sales in fiscal 2005. The following discussions should read in conjunction with the consolidated financial statements and notes thereto include elsewhere in this report.

Results of Operations

2005 vs. 2004 – During fiscal 2005 net sales increased 6.1% to \$689,145,000 from \$649,617,000 in fiscal 2004. ATV unit volume increased 8.4%, snowmobile unit volume decreased 4.1% and dollar sales of parts, garments and accessories decreased \$1,101,000. The Company believes the continued increase in ATV sales is due both to enthusiastic dealer and consumer reception of the Arctic Cat ATV and growth in the ATV market. Snowmobile unit volume decreased because of lower dealer orders related to less than normal snowfalls during the prior winter season in certain key regions in North America.

Gross profit decreased 2.4% to \$135,780,000 in 2005 from \$139,172,000 in 2004. The gross profit percentage decreased to 19.7% versus 21.4% in 2004. The decrease in the 2005 gross profit percentage was mainly due to increased engine costs resulting from the stronger yen versus dollar relationship, and to a lesser extent increased raw material and freight costs.

Selling, general and administrative expenses were flat at \$95,745,000 in 2005 from \$95,511,000 in 2004. Selling, general and administrative costs increased at a rate in line with the overall sales increase when considering that fiscal 2004 operating expenses included approximately \$5 million of Canadian currency hedge costs. As a percent of net sales, operating expenses were 13.9% in 2005 compared with 14.7% in 2004.

Operating profits decreased 8.3% to \$40,035,000 in 2005 from \$43,661,000 in 2004. As a percent of net sales, operating profits were 5.8% in 2005 compared to 6.7% in 2004. The decrease in operating profits is attributable to the decrease in gross profit.

Interest income increased 22.2% to \$1,213,000 in fiscal 2005 from \$993,000 in fiscal 2004 due to higher yields on invested cash related to higher rates of return than the prior year.

Net earnings decreased 6.8% to \$28,299,000 or \$1.36 per diluted share from \$30,365,000 or \$1.40 per diluted share for fiscal 2004. Net earnings as a percent of net sales were 4.1% and 4.7% in 2005 and 2004, respectively. The decrease in net earnings is attributable to the decrease in gross profit.

2004 vs. 2003 – During fiscal 2004 net sales increased 12.6% to \$649,617,000 from \$577,070,000 in fiscal 2003. ATV unit volume increased 13.0%, snowmobile unit volume decreased 6.0% and dollar sales of parts, garments and accessories increased \$4,727,000. The Company believes the continued increase in ATV sales is due both to enthusiastic dealer and consumer reception of the Arctic Cat ATV and growth in the ATV market. Snowmobile unit volume decreased because of lower dealer orders related to less than normal snowfalls during the prior winter season in certain key regions in North America.

Gross profit increased 8.0% to \$139,172,000 in 2004 from \$128,804,000 in 2003. The gross profit percentage decreased to 21.4% versus 22.3% in 2003. The decrease in the 2004 gross profit percentage was mainly due to the fact that the fiscal 2003 gross profit benefited from a one-time \$4,000,000 increase from the net reduction in PWC related restructuring accruals.

Selling, general and administrative expenses increased 16.8% to \$95,511,000 in 2004 from \$81,757,000 in 2003. Selling, general and administrative costs increased at a greater rate than the overall sales increase due to approximately \$5 million of Canadian currency hedge costs. As a percent of net sales, operating expenses were 14.7% in 2004 compared with 14.2% in 2003.

Operating profits decreased 7.2% to \$43,661,000 in 2004 from \$47,047,000 in 2003. As a percent of net sales, operating profits were 6.7% in 2004 compared to 8.2% in 2003. The principal reason for this decrease was the PWC matter described in the gross profit discussion.

Interest income decreased 31.1% to \$993,000 in fiscal 2004 from \$1,442,000 in fiscal 2003 due to lower yields on invested cash related to lower rates of return.

Net earnings decreased 7.1% to \$30,365,000 or \$1.40 per diluted share from \$32,703,000 or \$1.45 per diluted share for fiscal 2003. Net earnings as a percent of net sales were 4.7% and 5.7% in 2004 and 2003, respectively. Net earnings in fiscal 2003 would have been \$29,298,000 or \$1.30 per diluted share without the net reduction in PWC related restructuring accruals.

Critical Accounting Policies

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amount of reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results may differ from those estimates. The Company reviewed the development and selection of the critical accounting policies and believes the following are the most critical accounting policies that could have an effect on the Company's reported results. These critical accounting policies and estimates have been reviewed with the audit committee of the Board of Directors.

Revenue Recognition – The Company recognizes revenue and provides for estimated marketing and sales incentive costs, when products are shipped to dealers and distributors pursuant to their order, the price is fixed and collection is reasonably assured. Arctic Cat has agreements with finance companies to repurchase products repossessed up to certain limits. Arctic Cat's financial exposure to repurchase products is limited to the difference between the amount paid to the finance company and the resale value of the repossessed products. Historically, Arctic Cat has not incurred material losses as a result of repurchases nor has it provided a financial reserve for repurchases. Adverse changes in retail sales could cause this situation to change.

Marketing and Sales Incentive Costs – The Company provides for various marketing and sales incentive costs which are offered to its dealers and consumers at the latter of when the revenue is recognized or when the marketing and sales incentive program is approved and communicated. Examples of these costs include: dealer and consumer rebates, dealer floor plan financing assistance and other

incentive and promotion programs. Adverse market conditions resulting in lower than expected retail sales or the matching of competitor programs could cause accrued marketing and incentive costs to materially increase if the Company authorizes and communicates new programs to its dealers. The Company estimates marketing and sales incentive costs based on expected usage and historical experience. The related marketing and sales incentive costs accrual is included in accrued marketing in the Company's balance sheet. To the extent current experience differs with previous estimates the accrued liability for marketing and sales incentives is adjusted accordingly.

Product Warranties – The Company generally provides a limited warranty to the owner of snowmobiles for twelve months from the date of consumer registration and for six months on ATVs. The Company provides for estimated warranty costs at the time of sale based on historical rates and trends and makes subsequent adjustments to their estimate as actual claims become known or the amounts are determinable. Adverse changes in actual warranty costs compared to the Company's initial estimates could cause accrued warranty to materially change.

Product Liability and Litigation – The Company is subject to product liability claims and other litigation in the normal course of business. Arctic Cat insures for product liability claims although it retains a modest self insured retention accrual within the balance sheet caption Insurance. The estimated costs resulting from any losses over insured amounts are charged to operating expenses when it is probable a loss has been incurred and the amount of the loss is reasonably determinable.

The Company utilizes historical trends and other analysis to assist in determining the appropriate loss. Adverse changes in the final determination of product liability or other claims made against the Company could have a material impact on the Company's financial condition.

Liquidity and Capital Resources

The seasonality of the Company's snowmobile production cycle and the lead time between the commencement of snowmobile and ATV production in the early spring and commencement of shipments late in the first quarter have resulted in significant fluctuations in the Company's working capital requirements during the year. Historically, the Company has financed its working capital requirements out of available cash balances at the beginning and end of the production cycle and with short-term bank borrowings during the middle of the cycle. In fiscal 2005 the Company incurred no short-term bank borrowings. The Company believes current available cash and cash generated from operations together with its available line of credit will provide sufficient funds to finance the Company on a short and long-term basis.

Cash and Short-Term Investments

Cash and short-term investments were \$88,394,000 at March 31, 2005 compared to \$106,440,000 at March 31, 2004. The Company's cash balances traditionally peak early in the fourth quarter and then decrease as working capital requirements increase when the Company's snowmobile and spring ATV production cycles begin. The Company's investment objectives are first, safety of principal and second, rate of return.

Financing Arrangements and Cash Flows

The Company has a \$60,000,000 unsecured bank credit agreement for the documentary and stand-by letters of credit and for working capital purposes. Total working capital borrowings under the credit agreement are limited to \$45,000,000 during the last six months of the fiscal year. The total letters of credit issued at March 31, 2005 were \$24,396,000, of which \$21,616,000 was issued to Suzuki Motor Corporation for engine and service parts purchases.

The Company has agreements with certain finance companies to provide snowmobile and ATV floor plan financing for the Company's North American dealers. These agreements improve the Company's liquidity by financing dealer purchases of products without requiring substantial use of the Company's working capital. The Company is paid by the floor plan companies shortly after shipment and as part of its marketing programs the Company pays the floor plan financing of its dealers for certain set time periods depending on the size of a dealer's order. The financing agreements require repurchase of repossessed new and unused units and set limits upon the Company's potential liability for annual repurchases. The aggregate potential liability was approximately \$31,283,000 at March 31, 2005. No material losses have been incurred by the Company under these agreements. The Company believes current available cash and cash generated from operations provide sufficient funding in the event there is a requirement to perform under this guarantee and repurchase agreement.

In 2005, the Company invested \$25,954,000 in capital expenditures. The Company expects that capital expenditures, will increase to approximately \$45,000,000 in fiscal 2006. This increase is mainly due to an increase in tooling expenditures for new product development across all product lines and investment in a new ATV engine production facility. Since 1996, the Company has repurchased over 10 million shares of common stock. There is approximately \$5.5 million remaining on the June 2004 repurchase authorization and in May 2005, the Company's Board of Directors authorized an additional \$20,000,000 share repurchase. The Company believes that cash generated from operations and available cash will be sufficient to meet its working capital, regular quarterly dividend, share repurchase program and capital expenditure requirements on a short and long-term basis.

Contractual Obligations

The following table summarizes the Company's significant future contractual obligations at March 31, 2005 (in millions):

Contractual Obligations	Total	Payment Due by Period		
		Less than 1 Year	1-3 Years	More than 3 Years
Operating Lease Obligations	\$ 0.2	\$ 0.2	0	0
Purchase Obligations⁽¹⁾	138.0	138.0	0	0
Total Contractual Obligations	\$138.2	\$138.2	0	0

⁽¹⁾ The Company has outstanding purchase obligations with suppliers and vendors at March 31, 2005 for raw materials and other supplies as part of the normal course of business.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for certain forward-looking statements. This Report on Form 10-K, as well as the Company's Annual Report and future filings with the Securities and Exchange Commission, the Company's press releases and oral statements made with the approval of an authorized executive officer, contain forward-looking statements that reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated. The words "aim," "believe," "expect," "anticipate," "intend," "estimate" and other expressions that indicate future events and trends identify forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to: product mix and volume; competitive pressure on sales and pricing; increase in material or production cost which cannot be recouped in product pricing; changes in the sourcing of engines from Suzuki; warranty expenses; foreign currency exchange rate fluctuations; product liability claims and other legal proceedings in excess of insured amounts; environmental and product safety regulatory activity; effects of the weather; overall economic conditions; and consumer demand and confidence. The Company does not undertake any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Inflation, Foreign Exchange Rates and Interest Rates

Inflation is not expected to have a significant impact on the Company's business. The Company generally has been able to offset the impact of increasing costs through a combination of productivity gains and price increases.

During fiscal 2005, approximately 30% of the Company's cost of sales was purchased from Japanese yen denominated suppliers. The majority of these purchases were made from Suzuki Motor Corporation who supplies engines for the Company's snowmobiles and ATVs. The Company has an agreement with Suzuki Motor Corporation for snowmobile engine purchases to share the impact of fluctuations in the exchange rate between the U.S. dollar and the Japanese yen above and below a fixed range contained in the agreement. This agreement renews annually. During fiscal 2005, the exchange rate fluctuation between the U.S. dollar and the Japanese yen had a modest negative impact on the Company's operating results. From time to time the Company utilizes foreign exchange cash flow hedging contracts to minimize the impact of exchange rate fluctuations relating to ATV engine purchases. During 2005, the average contracted forward exchange rate on these cash flow hedges was approximately 109 (Japanese Yen to the U.S. Dollar). At March 31, 2005, there were no foreign exchange contracts outstanding for Japanese Yen.

Sales to Canadian dealers are made in Canadian dollars with the U.S. dollar serving as the functional currency. During fiscal 2005, sales to Canadian dealers comprised 18.0% of total net sales. During fiscal 2005, the exchange rate fluctuation between the U.S. dollar and the Canadian dollar had a modest positive impact on operating profits. During 2005, the Company utilized cash flow hedges to mitigate the variability in Canadian exchange rate changes relating to Canadian dollar fund transfers to the United States. During 2005, the average contracted forward exchange rate on these cash flows hedges was approximately \$1.31 (Canadian Dollar to U.S. Dollar). At March 31, 2005 there were Canadian dollar forward exchange contracts outstanding with notional amounts of \$1,080,000.

The fair values of the Canadian dollar hedge contracts at March 31, 2005 represent an unrealized gain of \$4,000. A ten percent fluctuation in the currency rates as of March 31, 2005 would have resulted in a change in the fair value of the Canadian dollar hedge contracts of approximately \$108,000. However, since these contracts hedge foreign currency denominated transactions, any change in the fair value of the contracts would be offset by changes in the underlying value of the transaction being hedged.

Interest rate market risk is managed for cash and short-term investments by investing in a diversified frequently maturing portfolio consisting of municipal bonds and money market funds that experience minimal volatility. The carrying amount of available-for-sale debt securities approximate related fair value and the associated market risk is not deemed to be significant.

The Company is a party to an unsecured bank line of credit arrangement under which it may borrow an aggregate of up to \$60 million. Interest is charged at variable rates based on either LIBOR or prime. In fiscal 2005 the Company incurred no short-term bank borrowings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements, Notes, and Report of Independent Registered Certified Public Accounting Firm appear on pages 21 through 32. Quarterly financial data appears in Item 6.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the 1934 Act as of March 31, 2005. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports it files or submits under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There have been no significant changes in internal controls over financial reporting during the fiscal quarter ended March 31, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Arctic Cat Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Arctic Cat Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on the assessment management believes that, as of March 31, 2005, the Company's internal control over financial reporting is effective based on those criteria.

Arctic Cat Inc.'s independent auditors have issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears on the next page.

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors

Arctic Cat Inc.

We have audited management's assessment, included in the accompanying management report included in Item 9 of this Form 10-K, that Arctic Cat Inc. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2005, based on control criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Arctic Cat Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the statements of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Arctic Cat Inc. and subsidiaries maintained effective internal control over financial reporting as of March 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, Arctic Cat Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of March 31, 2005, based on COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Arctic Cat Inc. and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2005 and our report dated June 9, 2005 expressed an unqualified opinion on those financial statements.



Minneapolis, Minnesota

June 9, 2005

ITEM 9B. OTHER INFORMATION

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information included under the heading "Election of Directors" and "Beneficial Ownership of Capital Stock-Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held August 3, 2005, is incorporated herein by reference.

Pursuant to instruction 3 to Item 401(b) of Regulation S-K, information as to executive officers of the Company is set forth in Item 4A of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information included under the heading "Executive Compensation and Other Information" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held August 3, 2005, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information included under the heading "Beneficial Ownership of Capital Stock" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held August 3, 2005, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions, appearing under the heading "Executive Compensation and Other Information-Certain Transactions" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on August 3, 2005, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the information set forth under the heading "Independent Public Accountants" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held August 3, 2005.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of report

1. Financial Statements.

The following consolidated financial statements of the Company and its subsidiaries are filed as part of this Form 10-K:

	Form 10-K Page Reference
(i) Consolidated Balance Sheets as of March 31, 2005 and 2004	21
(ii) Consolidated Statements of Earnings for the three years ended March 31, 2005, 2004 and 2003	22
(iii) Consolidated Statements of Shareholders' Equity for the three years ended March 31, 2005, 2004 and 2003	23
(iv) Consolidated Statements of Cash Flows for the three years ended March 31, 2005, 2004 and 2003	24
(v) Notes to Consolidated Financial Statements	25-31
(vi) Report of Independent Registered Certified Public Accounting Firm	32

2. Schedules filed as part of this Form 10-K.

The information required to be disclosed within Schedule II – Valuation and Qualifying Accounts is provided within the Consolidated Financial Statements of the Company, filed as part of this Form 10-K.

3. Exhibits

	Method of Filing
3(a) Amended and Restated Articles of Incorporation of Company	(3)
3(b) Restated By-Laws of the Company	(1)
4(a) Form of specimen Common Stock Certificate	(1)
4(b) Rights Agreement by and between the Company and Wells Fargo Bank Minnesota, N.A., dated September 17, 2001	(4)
10(a) 1989 Stock Option Plan, as amended	(3)
10(b) 1995 Stock Option Plan, as amended	(3)
10(c) Purchase/Supply Agreement dated as of March 1, 1985 between Suzuki Motor Co., Ltd. and the Company, and related Agreement on Implementation of Warranty Provision	(1)
10(d) Form of Employment Agreement between the Company and each of its executive officers	(1)
10(e) Floorplan Repurchase Agreement dated July 13, 1984, between the Company and ITT Commercial Finance Corp.	(1)
10(f) Floorplan Repurchase Agreement dated as of June 15, 1988, between the Company and ITT Commercial Finance, a division of ITT Industries of Canada, Ltd.	(1)
10(g) Discretionary Revolving Credit Facility, dated as of June 6, 1997, between the Company and Wells Fargo Bank Minnesota, National Association	(3)
10(h) 2002 Stock Plan	(5)
10(i) Form of incentive stock option agreement for 2002 Stock Plan	(2)
10(j) Form of non-qualified stock option agreement for 2002 Stock Plan	(2)
10(k) Form of Director non-qualified stock option agreement for 2002 Stock Plan	(2)

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|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 10(l) | Program agreement, dated as of January 20, 2003, by and between Arctic Cat Sales Inc. and Textron Financial Corporation (Confidential treatment pursuant to 17 CFR Sections 200.80(b) and 240.246-2 has been granted for certain portions of this exhibit. Such portions have been omitted herein and have been filed separately with the SEC.) | (6) |
| 10(m) | Repurchase Agreement, dated as of January 20, 2003, by and between Arctic Cat Sales Inc. and Textron Financial Corporation | (6) |
| 21 | Subsidiaries of the Registrant | (2) |
| 23 | Consent of Independent Registered Certified Public Accounting Firm | (2) |
| 31.1 | Section 302 Certificate of Chief Executive Officer | (2) |
| 31.2 | Section 302 Certificate of Chief Financial Officer | (2) |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | (2) |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | (2) |

(b) Exhibits

Reference is made to Item 15(a) 3.

(c) Schedules

Reference is made to Item 15(a) 2.

(1) Incorporated herein by reference to the Company's Form S-1 Registration Statement (File Number 33-34984).

(2) Filed with this Form 10-K.

(3) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1997.

(4) Incorporated by reference to Exhibit 1 to the Company's Registration on Form 8-A filed with the SEC on September 20, 2001.

(5) Incorporated by reference to Exhibit 99.1 to the Company's Registration on Form S-8 filed with the SEC on September 6, 2002.

(6) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2003.

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 10th day of June, 2005.

ARCTIC CAT INC.

/s/Christopher A. Twomey

Christopher A. Twomey

Chairman of the Board of Directors, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Date
<u>/s/ Christopher A. Twomey</u> Christopher A. Twomey Chairman of the Board of Directors, President, Chief Executive Officer (Principle Executive Officer)	June 10, 2005
<u>/s/ Timothy C. Delmore</u> Timothy C. Delmore Chief Financial Officer (Principle Financial and Accounting Officer)	June 10, 2005
<u>/s/ Robert J. Dondelinger</u> Robert J. Dondelinger, Director	June 10, 2005
<u>/s/ William I. Hagen</u> William I. Hagen, Director	June 10, 2005
<u>/s/ William G. Ness</u> William G Ness, Vice Chairman of the Board of Directors	June 10, 2005
<u>/s/ Gregg A. Ostrander</u> Gregg A. Ostrander, Director	June 10, 2005
<u>/s/ Kenneth J. Roering</u> Kenneth J. Roering, Lead Director	June 10, 2005
<u>/s/ Susan Lester</u> Susan Lester, Director	June 10, 2005
<u>/s/ Masayoshi Ito</u> Masayoshi Ito, Director	June 10, 2005

Arctic Cat Inc. March 31,	2005	2004
ASSETS		
Current Assets		
Cash and equivalents	\$ 20,765,000	\$ 44,045,000
Short-term investments	67,629,000	62,395,000
Accounts receivable, less allowances	46,472,000	28,274,000
Inventories	67,989,000	61,127,000
Prepaid expenses	3,578,000	3,592,000
Income taxes receivable	—	1,239,000
Deferred income taxes	9,428,000	10,412,000
Total current assets	215,861,000	211,084,000
Property and Equipment – At Cost		
Machinery, equipment and tooling	150,221,000	125,584,000
Land, buildings and improvements	22,883,000	22,213,000
	173,104,000	147,797,000
Less accumulated depreciation	97,232,000	78,295,000
	75,872,000	69,502,000
	\$291,733,000	\$280,586,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 53,202,000	\$ 48,148,000
Accrued expenses	36,181,000	34,900,000
Income taxes payable	3,409,000	—
Total current liabilities	92,792,000	83,048,000
Deferred Income Taxes	13,431,000	11,585,000
Commitments and Contingencies	—	—
Shareholders' Equity		
Preferred stock, par value \$1.00; 2,050,000 shares authorized; none issued	—	—
Preferred stock – Series A Junior Participating, par value \$1.00; 450,000 shares authorized; none issued	—	—
Common stock, par value \$.01; 37,440,000 shares authorized; shares issued and outstanding, 13,378,698, in 2005; 14,285,882 in 2004	134,000	143,000
Class B common stock, par value \$.01; 7,560,000 shares authorized, Shares issued, and outstanding 6,717,000 in 2005 and 2004	67,000	67,000
Accumulated other comprehensive gain (loss)	60,000	(221,000)
Retained earnings	185,249,000	185,964,000
	185,510,000	185,953,000
	\$291,733,000	\$280,586,000

The accompanying notes are an integral part of these statements.

Arctic Cat Inc. Years ended March 31,	2005	2004	2003
Net sales	\$689,145,000	\$649,617,000	\$577,070,000
Cost of goods sold	553,365,000	510,445,000	448,266,000
Gross profit	135,780,000	139,172,000	128,804,000
Selling, general and administrative expenses	95,745,000	95,511,000	84,161,000
Watercraft exit costs	—	—	(2,404,000)
Operating profit	40,035,000	43,661,000	47,047,000
Other income			
Interest income	1,213,000	993,000	1,442,000
Earnings Before Income Taxes	41,248,000	44,654,000	48,489,000
Income tax expense	12,949,000	14,289,000	15,786,000
Net Earnings	\$ 28,299,000	\$ 30,365,000	\$ 32,703,000
Net Earnings Per Share			
Basic	\$1.38	\$1.42	\$1.46
Diluted	\$1.36	\$1.40	\$1.45
Weighted average shares outstanding			
Basic	20,516,000	21,424,000	22,396,000
Diluted	20,794,000	21,730,000	22,615,000

The accompanying notes are an integral part of these statements.

Arctic Cat Inc. Years ended March 31,	Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balances at March 31, 2002	15,694,316	\$157,000	7,560,000	\$76,000	\$ -	\$(122,000)	\$181,527,000	\$181,638,000
Exercise of stock options	256,160	2,000	-	-	2,777,000	-	-	2,779,000
Tax benefits from stock option exercises	-	-	-	-	1,207,000	-	-	1,207,000
Repurchase of common stock	(1,462,627)	(15,000)	-	-	(3,984,000)	-	(21,445,000)	(25,444,000)
Other comprehensive income:								
Net earnings	-	-	-	-	-	-	32,703,000	32,703,000
Unrealized gain on securities available-for-sale, net of tax	-	-	-	-	-	75,000	-	75,000
Unrealized loss on derivative instruments, net of tax	-	-	-	-	-	(289,000)	-	(289,000)
Total other comprehensive income	-	-	-	-	-	-	-	32,489,000
Dividends (\$.24 per share)	-	-	-	-	-	-	(5,383,000)	(5,383,000)
Balances at March 31, 2003	14,487,849	144,000	7,560,000	76,000	-	(336,000)	187,402,000	187,286,000
Exercise of stock options	644,305	6,000	-	-	7,649,000	-	-	7,655,000
Tax benefits from stock option exercises	-	-	-	-	1,868,000	-	-	1,868,000
Repurchase of common stock	(846,272)	(7,000)	(843,000)	(9,000)	(9,517,000)	-	(26,230,000)	(35,763,000)
Other comprehensive income:								
Net earnings	-	-	-	-	-	-	30,365,000	30,365,000
Unrealized loss on securities available-for-sale, net of tax	-	-	-	-	-	(154,000)	-	(154,000)
Unrealized gain on derivative instruments, net of tax	-	-	-	-	-	269,000	-	269,000
Total other comprehensive income	-	-	-	-	-	-	-	30,480,000
Dividends (\$.26 per share)	-	-	-	-	-	-	(5,573,000)	(5,573,000)
Balances at March 31, 2004	14,285,882	143,000	6,717,000	67,000	-	(221,000)	185,964,000	185,953,000
Exercise of stock options	115,762	1,000	-	-	1,429,000	-	-	1,430,000
Tax benefits from stock option exercises	-	-	-	-	618,000	-	-	618,000
Repurchase of common stock	(1,022,946)	(10,000)	-	-	(2,047,000)	-	(23,272,000)	(25,329,000)
Other comprehensive income:								
Net earnings	-	-	-	-	-	-	28,299,000	28,299,000
Unrealized loss on securities available-for-sale, net of tax	-	-	-	-	-	(135,000)	-	(135,000)
Unrealized gain on derivative instruments, net of tax	-	-	-	-	-	416,000	-	416,000
Total other comprehensive income	-	-	-	-	-	-	-	28,580,000
Dividends (\$.28 per share)	-	-	-	-	-	-	(5,742,000)	(5,742,000)
Balances at March 31, 2005	13,378,698	\$134,000	6,717,000	\$67,000	\$ -	\$ 60,000	\$185,249,000	\$185,510,000

The accompanying notes are an integral part of these statements.

Arctic Cat Inc. Years ended March 31,	2005	2004	2003
Cash flows from operating activities			
Net earnings	\$ 28,299,000	\$ 30,365,000	\$ 32,703,000
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation	19,584,000	18,551,000	15,684,000
Deferred income taxes	2,666,000	5,532,000	5,547,000
Tax benefit from stock option exercises	618,000	1,868,000	1,207,000
Watercraft exit costs	—	—	(6,404,000)
Changes in operating assets and liabilities, net of effect of watercraft costs			
Trading securities	(9,151,000)	(6,155,000)	(1,031,000)
Accounts receivable	(18,194,000)	744,000	(5,199,000)
Inventories	(6,862,000)	10,596,000	(9,547,000)
Prepaid expenses	14,000	237,000	(436,000)
Accounts payable	5,709,000	12,710,000	6,996,000
Accrued expenses	1,281,000	(7,562,000)	(948,000)
Income taxes	4,648,000	1,083,000	(945,000)
Net cash provided by operating activities	28,612,000	67,969,000	37,627,000
Cash flows from investing activities			
Purchase of property and equipment	(25,954,000)	(25,053,000)	(21,475,000)
Sale and maturity of available-for-sale securities	3,703,000	1,729,000	1,861,000
Purchase of available-for-sale securities	—	—	(350,000)
Net cash used in investing activities	(22,251,000)	(23,324,000)	(19,964,000)
Cash flows from financing activities			
Proceeds from issuance of common stock	1,273,000	6,425,000	2,767,000
Repurchase of common stock	(25,172,000)	(34,533,000)	(25,432,000)
Dividends paid	(5,742,000)	(5,573,000)	(5,383,000)
Net cash used in financing activities	(29,641,000)	(33,681,000)	(28,048,000)
Net increase (decrease) in cash and equivalents	(23,280,000)	10,964,000	(10,385,000)
Cash and equivalents at beginning of year	44,045,000	33,081,000	43,466,000
Cash and equivalents at end of year	\$ 20,765,000	\$ 44,045,000	\$ 33,081,000
Supplemental disclosure of cash payments for income taxes	\$ 7,691,000	\$ 9,423,000	\$ 12,978,000

Supplemental disclosure of non-cash investing and financing activities:

As of March 31, 2005 and 2004, the unrealized gain on securities available-for-sale, net of tax was \$57,000 and \$192,000.

As of March 31, 2005 and 2004, the unrealized gain (loss) on derivative instruments, net of tax was \$3,000 and \$(413,000).

During 2005 and 2004, mature common shares with a fair market value of \$157,000 and \$1,230,000 were exchanged in settlement for the exercise of certain stock options.

The accompanying notes are an integral part of these statements.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Arctic Cat Inc. (the "Company") operates in a single industry segment and designs, engineers, manufactures and markets snowmobiles and all-terrain vehicles (ATVs) under the Arctic Cat® brand name, and related parts, garments and accessories principally through its facilities in Thief River Falls, Minnesota. The Company's products are sold through a network of independent dealers located throughout the United States and Canada, and distributors in Scandinavia and other international markets.

Use of Estimates

Preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, related revenues and expenses and disclosure about contingent assets and liabilities at the date of the financial statements. Actual results could differ from the estimates used by management.

Principles of Consolidation

The consolidated financial statements include the accounts of Arctic Cat Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Equivalents

The Company considers highly liquid temporary investments with an original maturity of three months or less or variable rate demand notes with put options exercisable in three months or less to be cash equivalents. Cash and equivalents consist primarily of commercial paper and put bonds. The Company's cash management policy provides for bank disbursement accounts to be reimbursed on a daily basis. Checks issued but not presented to the banks for payment are included in cash and equivalents as a reduction of other cash balances.

Fair Values of Financial Instruments

Except where noted, the carrying value of current financial assets and liabilities approximates their fair value, due to their short-term nature.

Short-Term Investments

Short-term investments are reported at fair value and include trading securities, with unrealized gains and losses included in net earnings, and available-for-sale securities, with unrealized gains and losses reported as a separate component of shareholders' equity. The Company utilizes the specific identification method in accounting for its short-term investments.

Accounts Receivable

The Company's accounts receivable balance consists of amounts due from its dealers and certain finance companies. The Company extends credit to its dealers based on an evaluation of the dealers' financial condition. The Company's collection exposure relating to accounts receivable amounts due from certain dealer finance companies is limited due to the financial strength of the finance companies and provisions of its existing agreements. Accounts receivable is presented net of an allowance for estimated uncollectible amounts due from its dealers. The Company estimates the uncollectible amounts considering numerous factors, mainly historical trends as well as current available information. The Company's allowance for uncollectible accounts was \$802,000, \$1,083,000 and \$1,083,000 at March 31, 2005, 2004 and 2003. The activity within the allowance for uncollectible accounts for the three years ending March 31, 2005 was not significant. Accounts receivable amounts written off have been within management's expectations.

Inventories

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out method.

Derivative Instruments and Hedging Activities

The Company enters into forward exchange contracts to hedge the variability in foreign exchange rates related to purchase commitments denominated in Japanese yen for ATV engines and transfers of Canadian dollar funds to the United States of America. The contracts are designated as, and meet the criteria for, cash flow hedges. The Company does not enter into forward contracts for the purpose of trading. Gains and losses on forward contracts are recorded in accumulated other comprehensive income (loss), net of tax, and subsequently reclassified within 12 months into cost of goods sold upon the sale of ATV units or into operating expense upon completing transfers of Canadian dollar funds.

As of March 31, 2005 and 2004, the Company had open Canadian dollar forward exchange contracts, maturing through April 2005 and December 2004, with notional amounts totaling \$1,080,000 and \$73,101,000 and fair value assets and liabilities, included in accounts receivable, of \$4,000 at March 31, 2005 and \$655,000 included in

accounts payable at March 31, 2004. The related amounts reported within other comprehensive income (loss), net of tax, were \$3,000 and \$(413,000). There were no open Japanese yen forward exchange contracts at March 31, 2005 and 2004.

Property and Equipment

Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, using the units of production method for tooling and the straight-line method for all other property and equipment. Repairs and maintenance cost that are considered not to extend the useful life of the property and equipment are expensed as incurred. Tooling is amortized over the life of the product, generally three years. Estimated service lives range from 15 - 20 years for buildings and improvements and 5 - 7 years for machinery and equipment. Accelerated and straight-line methods are used for income tax reporting.

Product Warranties

The Company generally provides a limited warranty to the owner of snowmobiles for twelve months from the date of consumer registration and for six months on ATVs. The Company provides for estimated warranty costs at the time of sale based on historical rates and trends and makes subsequent adjustments to its estimate as actual claims become known or the amounts are determinable. The following represents changes in the Company's accrued warranty liability for the fiscal years ended March 31,

	2005	2004	2003
Balance at April 1,	\$10,331,000	\$12,205,000	\$12,937,000
Warranty Provision	14,237,000	14,141,000	15,318,000
Warranty Claim Payments	12,515,000	16,015,000	16,050,000
Balance at March 31,	\$12,053,000	\$10,331,000	\$12,205,000

Insurance

The Company is self-insured for employee medical, workers' compensation, and product liability claims. Specific stop loss coverages are provided for catastrophic claims. Losses and claims are charged to operations when it is probable a loss has been incurred and the amount can be reasonably estimated.

Revenue Recognition

The Company recognizes revenue and provides for estimated marketing and sales incentive costs when products are shipped to dealers and distributors pursuant to their order, the price is fixed and collection is reasonably assured. Shipping and handling costs are recorded as a component of costs of goods sold at the time product is shipped.

Marketing and Sales Incentive Costs

At the time product revenue is recognized the Company provides for various marketing and sales incentive costs which are offered to its dealers and consumers. Examples of these costs, which are recognized as a reduction of revenue when the products are sold, include: dealer and consumer rebates, dealer floor plan financing assistance and other incentive and promotion programs. Generally, the Company records costs related to these marketing programs at the later of when the revenue is recognized or when the sales incentive or marketing program is approved and communicated for products previously shipped. Sales incentives that involve a free product or service delivered to the consumer are recorded as a component of cost of goods sold. The Company estimates the costs of these various incentive and marketing programs at the time of sale or subsequently when programs are approved and communicated based on historical experience. To the extent current experience differs with previous estimates the accrued liability for marketing and sales incentives is adjusted accordingly.

To help facilitate retail sales of snowmobiles, the Company, at its discretion, works with dealers to transfer units from lower snow fall or lower retail activity regions to higher snow fall or higher retail activity regions. At the time of a transfer the Company credits the transferring dealer and re-bills the receiving dealer. There was no activity of this type in 2005 and the net effect of this activity was to reduce revenue by less than 1% in 2004 and 2003.

Dealer Holdback

The Company records a dealer holdback program liability at the time certain products are shipped to its dealers. If the products subject to the holdback program are sold within the program time period, the Company refunds a portion of the original sale price, referred to as dealer holdback, to the dealer. The Company's dealer holdback program liability, included within the accounts payable, as of March 31, 2005, 2004 and 2003 was \$14,085,000, \$9,673,000 and \$1,566,000. The increases from March 31, 2004 to 2005 and from March 31, 2003 to 2004 were principally related to qualifying additional products, the period of coverage under the program and the timing of payments.

Research and Development

Research and development costs are expensed as incurred and are reported as a component of selling, general and administrative expenses. Research and development expense was \$17,350,000, \$14,736,000 and \$14,254,000 during 2005, 2004 and 2003.

Advertising

The Company expenses advertising costs as incurred, except for cooperative advertising obligations arising related to the sale of the Company's products to its dealers. The estimated cost of cooperative advertising, which the dealer is required to support, is recorded as marketing expense at the time the product is sold. Cooperative advertising was \$6,681,000, \$6,374,000, and \$4,957,000 in 2005, 2004 and 2003. Total advertising expense, including cooperative advertising, was \$22,031,000, \$18,900,000 and \$20,784,000 in 2005, 2004 and 2003.

Stock-Based Compensation

The Company utilizes the intrinsic value method of accounting for its employee stock-based compensation plans. The Company's reported net earnings and basic and diluted net earnings per share would have been as follows had the fair value method been used for valuing stock options granted to employees:

	2005	2004	2003
Net earnings:			
As reported	\$28,299,000	\$30,365,000	\$32,703,000
Additional compensation expense, net of tax	1,555,000	1,337,000	1,366,000
Pro forma	\$26,744,000	\$29,028,000	\$31,337,000
Net earnings per share:			
As reported			
Basic	\$1.38	\$1.42	\$1.46
Diluted	\$1.36	\$1.40	\$1.45
Pro forma			
Basic	1.30	\$1.35	\$1.40
Diluted	\$1.29	\$1.34	\$1.39

The fair value of each stock option award was estimated on the date of grant using the Black-Scholes options pricing model. The following assumptions were used to estimate the fair value of options:

	2005	2004	2003
Assumptions:			
Dividend yield	1.1%	1.3%	1.4%
Average term	7 years	7 years	7 years
Volatility	36%	39%	31%
Risk-free rate of return	4.1%	3.8%	3.9%

The weighted average fair value of options granted during each of the following years ended March 31:

	2005	2004	2003
Fair value of options granted	\$10.94	\$8.46	\$5.32

See Note K for additional disclosures regarding stock option plans.

Net Earnings Per Share

The Company's diluted weighted average shares outstanding include common shares and common share equivalents relating to stock options, when dilutive. Options to purchase 195,000, 85,180, and 369,295 shares of common stock with weighted average exercise prices of \$27.68, \$20.94, and \$15.80 were outstanding during 2005, 2004 and 2003, but were excluded from the computation of common share equivalents because they were anti-dilutive.

Weighted average shares outstanding consist of the following for the years ended March 31,

	2005	2004	2003
Weighted average number of common shares outstanding	20,516,000	21,424,000	22,396,000
Dilutive effect of option plan	278,000	306,000	219,000
Common and potential shares outstanding – Diluted	20,794,000	21,730,000	22,615,000

Foreign Currency Translation

The Company's sales and marketing activities with Canadian dealers are denominated in Canadian currency with the U.S. dollar serving as the functional currency. Assets and liabilities denominated in Canadian currency are translated using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average foreign exchange rate in effect for the period. Exchange gains and losses are reflected in the results of operations.

Comprehensive Income

Comprehensive income represents net earnings adjusted for the unrealized gain or loss on derivative instruments and debt securities classified as available-for-sale and shown in the consolidated financial statements of stockholders' equity.

Accounting Policy and Disclosure Changes

On December 16, 2004, the Financial Standards Board (FASB) issued Statement of Financial Accounting Standards No. SFAS 123(revised 2004) (SFAS 123R), Share Based Payment. This statement requires the compensation cost relating to share-based payment transactions to be recognized in a company's financial statements. That cost will be measured based on the fair value of the equity or liability instruments on the date they are issued. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share repurchase.

The Company will be required to adopt SFAS 123R as of its first interim reporting period that begins after March 31, 2006 or the first quarter of fiscal year 2007. The Company has not completed its evaluation of SFAS 123R but expects the adoption of this new standard will have a significant impact due to the Company's use of options as employee incentives.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" ("SFAS 151"). The provisions of this statement become effective for the Company in fiscal 2007. SFAS 151 amends the existing guidance on the recognition of inventory costs to clarify the accounting for abnormal amounts of idle expense, freight, handling costs, and wasted material (spoilage). Existing rules indicate that under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of this Statement is not expected to have a material impact on the valuation of inventory or operating results.

Reclassification

Certain 2004 amounts have been reclassified to conform with the 2005 financial statement presentation. The reclassification had no effect on previously reported operating results.

B SHORT-TERM INVESTMENTS

Short-term investments consist primarily of a diversified portfolio of municipal bonds and money market funds and are classified as follows at March 31:

	2005	2004
Trading securities	\$64,433,000	\$55,282,000
Available-for-sale debt securities	3,196,000	7,113,000
	\$67,629,000	\$62,395,000

Trading securities consists of \$54,608,000 and \$41,707,000 invested in various money market funds at March 31, 2005 and 2004, respectively, while the remainder of trading securities and available-for-sale securities consists primarily of "A" rated or higher municipal bond investments. The amortized cost and fair value of debt securities classified as available-for-sale was \$3,105,000 and \$3,196,000, at March 31, 2005. The unrealized gain on available-for-sale debt securities is reported, net of tax, as a separate component of shareholders' equity. The contractual maturities of available-for-sale debt securities at March 31, 2005, are \$765,000 within one year and \$2,431,000 from one year through five years.

C INVENTORIES

Inventories consist of the following at March 31:

	2005	2004
Raw materials and sub-assemblies	\$17,155,000	\$16,942,000
Finished goods	24,149,000	14,719,000
Parts, garments and accessories	26,685,000	29,466,000
	\$67,989,000	\$61,127,000

D ACCRUED EXPENSES

Accrued expenses consist of the following at March 31:

	2005	2004
Marketing	\$7,567,000	\$ 8,566,000
Compensation	9,288,000	9,206,000
Warranties	12,053,000	10,331,000
Insurance	5,315,000	5,061,000
Other	1,958,000	1,736,000
	\$36,181,000	\$34,900,000

E DISCONTINUED PERSONAL WATERCRAFT BUSINESS AND RELATED COSTS

On October 7, 1999, the Company announced that it was exiting the personal watercraft (PWC) business effective September 30, 1999 and recorded a charge of \$21,462,000. The charge included \$8,961,000 for consumer incentives, \$3,480,000 for the write-down and disposal of long-lived assets with no alternative use, \$5,286,000 to reduce related inventory to a net realizable value and accrued \$3,735,000 relating to other matters. The Company had no significant sales of the PWC product line in the years ended March 31, 2005, 2004 and 2003. The majority of the Company's PWC exit plan has concluded while other aspects of the plan will extend beyond March 31, 2005. During fiscal year 2003, the Company analyzed current and future exit plan

costs, and reduced the initial recorded PWC exit plan consumer incentive and other exit costs accruals in the amount of \$4,000,000 and \$2,404,000, respectively. The changes in the PWC exit accrual (included in other expenses) were as follows:

	Consumer Incentives	Other Matters	Total
Balance at April 1, 2002	\$4,655,000	\$2,854,000	\$7,509,000
Change in estimates	(4,000,000)	(2,404,000)	(6,404,000)
Cash payments	(228,000)	0	(228,000)
Balance on March 31, 2003	427,000	450,000	877,000
Cash payments	(269,000)	—	(269,000)
Balance at March 31, 2004	158,000	450,000	608,000
Cash payments	(57,000)	—	(57,000)
Balance on March 31, 2005	\$ 101,000	\$ 450,000	\$ 551,000

F FINANCING

The Company has a \$60,000,000 unsecured bank credit agreement for documentary and stand-by letters of credit and for working capital purposes. In fiscal 2005 the Company incurred no short term bank borrowings. Total working capital borrowings under the credit agreement are limited to \$45,000,000 during the last six months of the fiscal year. The credit agreement is due on demand and expires July 28, 2005, however, management believes they will be able to renew the existing line of credit under similar terms. Interest on the working capital borrowings is payable monthly at alternative interest rates, at the Company's election. The credit agreement contains certain covenants. At March 31, 2005, there was \$24,396,000 of issued letters of credit outstanding and no working capital borrowings outstanding. Of the issued letters of credit outstanding, \$21,616,000 was issued to Suzuki Motor Corporation (Suzuki) for engine and service parts purchases (see Note H). Outstanding letters of credit will be repaid over the following six months in accordance with the credit agreement and any such renewal.

G RETIREMENT SAVINGS PLAN

The Company's 401(k) retirement savings plan covers substantially all eligible employees. Employees may contribute up to 50% of their compensation with the Company matching 100% of the employee contributions, up to a maximum of 3% of the employee's compensation. The Company can elect to make additional contributions at its discretion. Total Company matching contributions were \$1,448,000, \$1,286,000 and \$1,284,000 in 2005, 2004 and 2003. There were no discretionary contributions made during 2005, 2004 and 2003.

H RELATED PARTY TRANSACTIONS

The Company purchases engines and service parts from Suzuki, owner of the Company's Class B common stock. Such purchases totaled \$138,021,000, \$129,700,000 and \$114,472,000 in 2005, 2004 and 2003. The purchase price of the engines and service parts is determined annually. The Company has an agreement with Suzuki for snowmobile engine purchases to share the impact of fluctuations in the exchange rate between the U.S. dollar and the Japanese yen above and below a fixed range contained in the agreement. This agreement renews annually.

The Company is dependent on Suzuki for the near term supply of most of its engines and related service parts. An interruption of this supply could have a material adverse effect on the Company's operations. Certain raw materials and services are purchased from vendors in which certain of the Company's directors are officers or significant shareholders. In 2005, 2004 and 2003, these transactions aggregated \$2,678,000, \$7,150,000 and \$6,165,000.

I INCOME TAXES

Income tax expense consists of the following for the years ended March 31:

	2005	2004	2003
Current			
Federal	\$ 9,166,000	\$ 7,831,000	\$ 9,310,000
State	1,117,000	926,000	929,000
Deferred	2,666,000	5,532,000	5,547,000
	\$12,949,000	\$14,289,000	\$15,786,000

The following is a reconciliation of the Federal statutory income tax rate to the effective tax rate for the years ended March 31:

	2005	2004	2003
Statutory income tax rate	35.0%	35.0%	35.0%
State taxes	1.8	1.4	1.3
Tax exempt interest	(0.7)	(0.5)	(0.5)
Foreign sales corporation	(3.2)	(2.1)	(1.8)
Other	(1.5)	(1.8)	(1.4)
	31.4%	32.0%	32.6%

The cumulative temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes under the liability methods are as follows at March 31:

	2005	2004
Short-term deferred income tax assets		
Accrued expenses	\$ 8,352,000	\$ 9,127,000
Inventory capitalization and adjustments	2,582,000	2,492,000
Other	297,000	401,000
Short-term deferred income tax liability		
Prepaid expenses and other	(1,803,000)	(1,608,000)
Net short-term deferred tax asset	\$ 9,428,000	\$10,412,000
Long-term deferred income tax liability		
Property and equipment	\$13,431,000	\$11,585,000
Long-term deferred tax liability	\$13,431,000	\$11,585,000

J COMMITMENTS AND CONTINGENCIES

Dealer Financing

Finance companies provide certain of the Company's dealers with floor plan financing. The Company has agreements with these finance companies to repurchase certain repossessed products sold to its dealers. At March 31, 2005, the Company was contingently liable under these agreements for a maximum repurchase amount of approximately \$31,283,000. The Company's financial exposure under these agreements is limited to the difference between the amount paid to the finance companies for repurchases and the amount received upon the resale of the repossessed product. Losses incurred under these agreements during the periods presented have not been material.

Litigation

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. Accidents involving personal injury and property damage occur in the use of snowmobiles and ATVs. Claims have been made against the Company from time to time. It is the Company's policy to vigorously defend against these actions. The Company believes that the cases in discovery are adequately covered by reserves and product liability insurance. The Company is not involved in any legal proceedings which it believes will have the potential for a materially adverse impact on the Company's business or financial condition, results of operations or cash flows.

K SHAREHOLDERS' EQUITY

Stock Option Plans

The Company has stock option plans that provide for incentive and non-qualified stock options to be granted to directors, officers and other key employees. The stock options granted generally have a five to ten year life, vest over a period of one to three years, and have an exercise price equal to the fair market value of the stock on the date of grant. At March 31, 2005, the Company had 758,942 shares of common stock available for grant under the plans.

Transactions under the plans during each of the three years in the period ended March 31, are summarized as follows:

	Number of shares under option	Weighted average exercise price
Outstanding at April 1, 2002	1,389,243	\$11.87
Granted	327,000	15.59
Exercised	(256,160)	10.85
Cancelled	(3,000)	15.21
Outstanding at March 31, 2003	1,457,083	12.88
Granted	316,000	21.00
Exercised	(644,305)	11.88
Outstanding at March 31, 2004	1,128,778	15.72
Granted	274,000	27.60
Exercised	(115,762)	12.35
Cancelled	(1,000)	12.00
Outstanding at March 31, 2005	1,286,016	\$18.56

Options exercisable at March 31 are as follows:

	Number of shares under option	Weighted average exercise price
2003	922,081	\$11.64
2004	578,282	\$13.22
2005	762,189	\$15.51

The following tables summarize information concerning currently outstanding and exercisable stock options at March 31, 2005:

Options Outstanding

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 6.11	11,814	3.4 years	\$ 6.11
9.38 - 13.33	235,717	4.2 years	11.09
14.41 - 21.03	764,485	7.1 years	17.81
25.45 - 28.00	274,000	9.0 years	27.60
	1,286,016		\$18.56

Options Exercisable

Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
\$ 6.11	11,814	\$ 6.11
9.38 – 13.33	235,717	11.09
14.41 – 21.03	478,158	16.99
25.45 – 28.00	36,500	27.67
	762,189	\$15.51

Class B Common Stock

Suzuki owns all outstanding shares of the Company's Class B common stock. At the option of Suzuki, the Class B common stock is convertible into an equal number of shares of the Company's common stock. The Class B shareholder is entitled to elect one member of the Company's Board of Directors but cannot vote for the election of other directors of the Company. The Class B shareholder can vote on all other matters submitted to the common shareholders. The Class B common stock participates equally with the common stock in all dividends and other distributions duly declared by the Company's Board of Directors. The Class B common shares are converted into an equal number of shares of common stock if: Suzuki owns less than 15% of the aggregate number of outstanding common and Class B common shares; the Company becomes a non-surviving party due to a merger or recapitalization; the Company sells substantially all of its assets; or Suzuki transfers its Class B common stock to any person.

In addition, the Company has a Stock Purchase Agreement with Suzuki that prohibits the purchase of additional shares of the Company's common stock unless, following such purchase, Suzuki's ownership is less than or equal to 32% of the aggregate outstanding shares of common and Class B common stock. The Company has the first right of refusal to purchase any shares Suzuki intends to sell. Suzuki has agreed not to compete in the manufacture of snowmobiles or related parts so long as it supplies engines to the Company or owns at least 10% of the aggregate common and Class B common shares outstanding.

Preferred Stock

The Company's Board of Directors is authorized to issue 2,050,000 shares of \$1.00 par value preferred stock in one or more series. The board can determine voting, conversion, dividend and redemption rights and other preferences of each series. No shares have been issued.

Shareholders' Rights Plan

In connection with the adoption of a Shareholders' Rights Plan, the Company created a Series B Junior Participating preferred stock. Under terms of the Company's Shareholder Rights Plan, upon the occurrence of certain events, registered holders of common stock and Class B common stock are entitled to purchase one-hundredth of a share of Series B Junior Participating preferred stock at a stated price, or to purchase either the Company's common shares or common shares of an acquiring entity at half their market value. The Rights related to this plan expire September 17, 2011.

Share Repurchase Authorization

The Company invested \$25,329,000, \$35,763,000 and \$25,444,000 during 2005, 2004 and 2003 to repurchase and cancel 1,023,000, 1,689,500 and 1,463,000 shares of common stock, pursuant to Board of Directors' authorizations. Included in the 2004 repurchases are 843,000 shares of Class B stock from Suzuki Motor Corporation, repurchased for \$18,259,000 or \$21.66 per share. At March 31, 2005, authorization to repurchase \$5,469,000 or approximately 202,000 shares remain outstanding. In May 2005, the Board of Directors' approved an additional \$20,000,000 share repurchase.

L EXPORT SALES

Sales to foreign customers, located primarily in Canada, amounted to \$171,075,000, \$152,657,000 and \$118,399,000 in 2005, 2004 and 2003.

Board of Directors

Arctic Cat Inc.

We have audited the accompanying consolidated balance sheets of Arctic Cat Inc. and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arctic Cat Inc. and subsidiaries as of March 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Arctic Cat Inc. and subsidiaries' internal control over financial reporting as of March 31, 2005, based on *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 9, 2005 expressed an unqualified opinion on the effectiveness of Arctic Cat Inc. and subsidiaries' internal control over financial reporting.



Minneapolis, Minnesota

June 9, 2005

EXHIBIT NUMBER

21	Subsidiaries of Registrant
23	Consent of Independent Registered Certified Public Accounting Firm
31.1	Certificate of Chief Executive Officer
31.2	Certificate of Chief Financial Officer
32.1	Certification of Chief Executive Officer
32.2	Certification of Chief Financial Officer

EXHIBITS**EXHIBIT 21****ARCTIC CAT INC.**

Subsidiaries of the Company

Arctic Cat Sales Inc.
organized under the laws of
the State of Minnesota
100% of common stock owned by parent

Arctic Cat Production LLC
organized under the laws of
the State of Minnesota
100% of the membership units owned by parent

Arctic Cat Production Support LLC
organized under the laws of
the State of Minnesota
100% of the membership units owned by parent

Arctic Cat Shared Services LLC
organized under the laws of
the State of Minnesota
100% of the membership units owned by parent

EXHIBIT 23**CONSENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM**

We have issued our report dated June 9, 2005, accompanying the consolidated financial statements of Arctic Cat Inc. and subsidiaries included in the Annual Report on Form 10-K of Arctic Cat Inc. for the year ended March 31, 2005. We hereby consent to the incorporation by reference of said report in the Registration Statements of Arctic Cat Inc. on Forms S-8 (File No. 33-37065, effective October 1, 1990, File No. 33-69916, effective October 4, 1993, File No. 33-97244, effective September 22, 1995 and File No. 333-99253, effective September 6, 2002).



Minneapolis, Minnesota
June 9, 2005

EXHIBIT 31.1

I, Christopher A. Twomey, certify that:

1. I have reviewed this annual report on Form 10-K of Arctic Cat Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared.
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d. Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 10, 2005

/s/ Christopher A. Twomey

Christopher A. Twomey,
Chairman, President and Chief Executive Officer

EXHIBIT 31.2

I, Timothy C. Delmore, certify that:

1. I have reviewed this annual report on Form 10-K of Arctic Cat Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared.
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about effectiveness of the disclosure controls and procedures as of the end of the period covered by this annual report based on such evaluation; and
 - d. Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 10, 2005

/s/ Timothy C. Delmore

Timothy C. Delmore,
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Executive Officer of Arctic Cat Inc. (the "Company"), hereby certify that the Annual Report on Form 10-K of the Company for the year ended March 31, 2005 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: June 10, 2005

/s/ Christopher A. Twomey
Christopher A. Twomey,
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Financial Officer of Arctic Cat Inc. (the "Company"), hereby certify that the Annual Report on Form 10-K of the Company for the year ended March 31, 2005 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: June 10, 2005

/s/ Timothy C. Delmore
Timothy C. Delmore,
Chief Financial Officer

Board of Directors

**Robert J. Dondelinger⁺*
Chairman and Co-owner of
Northern Motors
Thief River Falls, MN**

William I. Hagen⁺⁺
Retired owner of
Nationwide Trucking Company,
Part owner and Director of
Border Bancshares, Inc.
and farmer,
Warroad, MN

Monkeyichi Ito
General Manager,
America/Europe Motorcycle
Marketing Department,
Suzuki Motor Corporation
Hamamatsu, Japan

Susan E. Lester^{*}
Former Chief Financial Officer of
B.S. Bancorporation
Minneapolis, MN

William G. Ness⁺⁺
Vice Chairman,
Arctic Cat Inc.
Hudson, WI

Gregg A. Ostrander⁺⁺✓
Chairman, President and
Chief Executive Officer,
Michael Foods, Inc.
Minneapolis, MN

Kenneth J. Roering⁺⁺✓
Professor,
Carlson School of Management,
University of Minnesota
Minneapolis, MN

Christopher A. Twomey
Chairman, President and
Chief Executive Officer,
Arctic Cat Inc.
Thief River Falls, MN

- * Audit Committee Member
- * Compensation Committee Member
- * Governance Committee Member
- ✓ Stock Grant Subcommittee Member

Officers

Christopher A. Twomey
Chairman, President and
Chief Executive Officer

Timothy C. Delmore
Chief Financial Officer
and Secretary

Terry J. Blount
Vice President –
Human Resources

Robert Bonev
Vice President –
Sales and Marketing

Ronald G. Ray
Vice President –
Operations

Roger H. Skime
Vice President –
Research & Development

Ole E. Tweet
Vice President –
New Product Development

Corporate Headquarters
601 Brooks Avenue South
Thief River Falls, MN 56701
218-681-8558

Legal Counsel
Robins, Kaplan, Miller
& Ciresi L.L.P.
Minneapolis, MN

Ihle & Sparby, P.A.
Thief River Falls, MN 56701

Auditor
Grant Thornton LLP
Minneapolis, MN

Common Stock
Arctic Cat's common stock is traded on
the National Market System of Nasdaq
under the symbol "ACAT"

Shareholder Assistance
If you change your address, or if you
have questions about payment of
dividends, combining two or more
accounts, duplicate mailings, changes
in registration or lost stock certificates,
please contact our Transfer Agent
and Registrar.

Wells Fargo Bank, N.A.
161 N Concord Exchange
South St. Paul, MN 55075

Further Information
Shareholders may obtain a copy of the
2005 Form 10-K report, including the
financial statements, without charge upon
written request to:

Timothy C. Delmore, Secretary
Arctic Cat Inc.
601 Brooks Avenue South
Thief River Falls, MN 56701

Internet Access
To view the Company's financial informa-
tion, certain corporate governance filings,
products and specifications and dealer
location, access Arctic Cat on the internet
at: www.arcticcat.com




ARCTIC CAT®

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